

Daio Abundant and Affable Future 2030

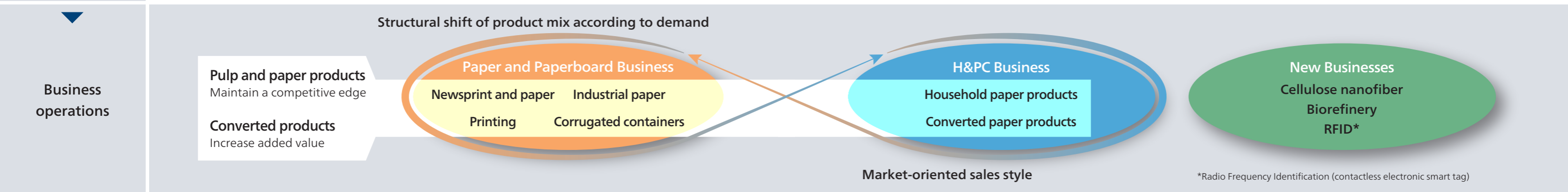
The Daio Group will achieve the Three Well-beings (Hygiene, Life, and Regeneration) to realize an abundant and affable future through the four pillars of our management philosophy.

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

▶ Daio Group Sustainability Vision
https://www.daio-paper.co.jp/wp-content/uploads/2022_sustainability-vision_e-1.pdf

Three Well-beings	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.	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.	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.
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Four pillars of our management philosophy and social issues that we have been addressing	<p>D <small>Dedicated</small> Dedication to manufacturing</p> <ol style="list-style-type: none"> 1. Strategic transformation of our business portfolio 2. Acceleration of global expansion 3. Creation of new businesses <p>As a manufacturer closest to customers, we embody our sales philosophy: "What is made by Daio is sold only by Daio sales representatives." By identifying society's needs quickly, we have reflected them into our business operations, products, and services.</p>	<p>A <small>Attentive</small> Bonds with local communities</p> <ol style="list-style-type: none"> 4. Coexistence with local communities 5. Establishment of a sustainable supply chain <p>Our united efforts with local government and communities, as well as related industries, including papermaking, conversion, distribution, and logistics, have led to the development of Shikokuchuo City, the place of our founding, into Japan's top "paper" city.</p>	<p>I <small>Integrated</small> Corporate culture providing safety and motivation to work</p> <ol style="list-style-type: none"> 6. Respect for human rights, development of human resources, and compassion for employees 7. Fair and highly transparent management <p>Believing that employees are a company's driving force, we established a health insurance association in 1958. Since then, we have been working on employee health and vitality from a management viewpoint, and are fully committed to human resource development (e.g., foreign language training, study abroad programs, and technical skills training).</p>	<p>O <small>Organic</small> Contribution to the global environment</p> <ol style="list-style-type: none"> 8. Response to climate change 9. Realization of a recycling-oriented society 10. Forest conservation and maintenance of biodiversity <p>Inheriting our founder's tenet, "Should our business cause pollution in my hometown and disturb the local community, we had better not carry on that business," we have been engaged in forest recycling (afforestation), paper recycling (achievement of a high utilization rate of recovered paper), etc.</p>
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Contribution to achieving the SDGs	<p>Major initiatives</p> <p>Sales of environmentally friendly products</p> <ul style="list-style-type: none"> Environmentally conscious products Plastic-replacing products Low-plastic products Forest Stewardship Council (FSC)-certified paper <p>Sales of products against infectious diseases</p> <ul style="list-style-type: none"> Masks, sanitizing wet wipes, and paper towels <p>Provision of products and services for an aging population</p> <ul style="list-style-type: none"> Provision of services to reduce caregivers' anxiety and burden Sales of products for active seniors 	<p>Major initiatives</p> <p>Contribution to invigorating and developing local communities</p> <ul style="list-style-type: none"> Coexistence together with local business partners Preservation and creation of employment through capital investment Formation of a pulp and paper industrial cluster <p>Coexistence with and support for the local community of each production base</p> <ul style="list-style-type: none"> Invigoration of the local economy Cooperation with local communities toward establishing essential infrastructure, including water supply for daily use and irrigation 	<p>Major initiatives</p> <p>Respect for human rights and diversity</p> <ul style="list-style-type: none"> Empowerment of women employees (increasing the percentage of women managers) Promotion of paternity leave uptake Employment of people with disabilities <p>Development of global human resources</p> <ul style="list-style-type: none"> Reinforcement of language training programs Overseas training programs for young employees <p>Work-style reform and health and productivity management</p> <ul style="list-style-type: none"> Promotion of paid leave uptake Promotion of smoking cessation rates and improvement of mental health care 	<p>Major initiatives</p> <p>CO₂ emissions reduction, absorption, and fixation</p> <ul style="list-style-type: none"> Transition to biomass fuel Effective use of waste fuel Energy saving and improvement in energy use efficiency Improvement of logistics efficiency and promotion of a modal shift CO₂ absorption and fixation through forestation <p>Reduction, reuse, and recycling (3Rs)</p> <ul style="list-style-type: none"> Achievement of a high utilization rate for recovered paper Recycling and reuse of water
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Material Issues and Contribution to Achieving the SDGs

To solve each of the material issues that it has identified, the Daio Group has formulated business strategies and initiatives, and has set numerical targets for the relevant key performance indicators (KPIs).

Four Pillars of Our Management Philosophy	Material Issues	Business Strategies and Major Initiatives	KPI	Results			Targets	Relevant SDGs
				FY2021	FY2022	FY2023	FY2030	
D Dedicated Dedication to manufacturing	Strategic transformation of our business portfolio	<ul style="list-style-type: none"> ● Newsprint and paper: Review the production system and sales structure, strengthen the downstream printing business ● Industrial paper and containerboard: Continue to ensure a stable supply in Japan [Contribution to solving social issues] Shift from paper to containerboard → Preserve employment by continuing the operation of machines 	—	—	—	—	—	
	Acceleration of global expansion	<ul style="list-style-type: none"> ● H&PC domestic business: Increase domestic market share of absorbent products and establish a multi-category business model ● H&PC overseas business: Strengthen the foundation of existing businesses and develop new markets [Contribution to solving social issues] Contribute to local development at each overseas base → Improve technological and development capabilities, and create and preserve employment 	—	—	—	—	—	
	Creation of new businesses	<ul style="list-style-type: none"> ● Advanced materials: Cellulose nanofiber (CNF), biorefinery [Contribution to solving social issues] Reduce environmental impact by eliminating or reducing the use of plastics, and use RFID to enhance operating efficiency 	Number of fields where CNF is commercialized — —	2 — —	2 — —	3 — —	7 — —	
A Attentive Bonds with local communities	Coexistence with local communities	<ul style="list-style-type: none"> ● Attento Meister Professionals certification for caregivers ● Skills training for community residents by Forestal Anchile Ltda. ● Development of essential infrastructure, including water supply for daily use and irrigation, in Purranque, Chile 	Number of certified Attento Meister Professionals Number of skills training sessions held —	2,778 1 —	4,787 0 —	7,294 1 —	22,000 Once a year —	
	Establishment of a sustainable supply chain	<ul style="list-style-type: none"> ● CSR procurement: Procurement based on the Daio Group Sustainable Procurement Guidelines Based on the SDGs ● Forest certification 	Supplier survey response rate ↳ Percentage of suppliers rated 3.5 or higher on a 5-point scale Retention rate of forest certification at home and abroad	95% 62% 100%	96% 61% 100%	100% 61% 100%	100% 90% 100%	
I Integrated Corporate culture providing safety and motivation to work	Respect for human rights, development of human resources, and compassion for employees	<ul style="list-style-type: none"> ● Supporting the growth of individual employees ● Making the most of our diversity ● Respect for individual employees, fair and co-creative relationships between the Company and employees: Health and productivity management : Safety and health 	Percentage of employees with TOEIC 600+ Percentage of employees voluntarily participating in the programs*1 Percentage of women managers Percentage of women leaders (chiefs) Percentage of experienced hires Paternity leave uptake rate Follow-up screening uptake rate Lost time injury frequency rate	Unconsolidated) 15.7% Unconsolidated) 11.4% — — Unconsolidated) 52.4% — — Consolidated) 1.14	Unconsolidated) 15.6% Unconsolidated) 11.5% Consolidated) 5.2% — Unconsolidated) 22.8% Domestic consolidated) 79.3% — Consolidated) 1.01	Unconsolidated) 17.4% Unconsolidated) 9.4% Consolidated) 6.4% Consolidated) 6.8% Unconsolidated) 43.0% Domestic consolidated) 65.3% Consolidated) 37.0% Consolidated) 0.88	30% 30% Consolidated) 10% Consolidated) 12% Unconsolidated) 50% Domestic consolidated) 100% Consolidated) 100% Consolidated) 0.69	
	Fair and highly transparent management	<ul style="list-style-type: none"> ● Sustainably enhance the effective and highly transparent governance system ● Compliance training for employees 	— Percentage of departments conducting compliance discussions (FY2022: Out of 5 sessions, FY2023: Out of 11 sessions)	— —	— Unconsolidated) 97.6%	— Unconsolidated) 86.9%	— Unconsolidated) 100%	
O Organic Contribution to the global environment	Response to climate change	<ul style="list-style-type: none"> ● Transition to biomass-derived fuel, effectively use waste fuel, and adopt other measures toward decarbonization 	Reduction in fossil fuel-based CO ₂ emissions (compared to FY2013) ² Energy intensity (compared to previous fiscal year) Reduction in Scope 1 & Scope 2 GHG emissions (compared to FY2013) ² Reduction in Scope 3 emissions (domestic category 1 & 4, compared to FY2022) ²	3.2% Not achieved -1.6% —	7.0% Achieved 6.9% —	18.0% Achieved 19.2% 11.6%	46% 1% reduction per year 20% 15%	
	Realization of a recycling-oriented society	<ul style="list-style-type: none"> ● Promote the use of hard-to-recycle recovered paper (by increasing the content of recovered pulp in containerboard at the Mishima Mill) ● Realize zero waste emissions ● Promote water circulation for reuse and purification of wastewater through proper wastewater treatment 	Recovered paper content in containerboard Waste recycled Number of plastic-reducing product items Reductions in water intensity and wastewater COD intensity (sales-based, compared to previous fiscal year)	15.7% 98.4% 19 Water: 5.6% COD: 9.9%	14.2% 97.1% 31 Water: 10.5% COD: 6.0%	17.0% 98.3% 35 Water: 2.8% COD: 5.9%	30% 100% 40 Continued achievement of 1% reduction per year	
	Forest conservation and maintenance of biodiversity	<ul style="list-style-type: none"> ● Forestry activities ● Fire prevention and firefighting education for residents living near company-owned forests ● Protect the Patagonian cypress, a designated natural treasure in Chile, in cooperation with a local NGO 	Increase in forested area (by FY2050) Preservation of the approximately 280 km ² of existing natural forests — —	Approx. 4.0 km ² Preserved — —	Approx. 2.0 km ² Preserved — —	Approx. -0.6 km ² *3 Preserved — —	150 km ² Preserved — —	

*1 Percentage of employees who participated in the programs voluntarily, not compulsorily.
 *2 The amount of emissions from subsidiaries that became part of the Daio Group during and after the reference year FY2013 is included.
 *3 Decreased due to forest fires.

Initiatives for Value Creation



Harmony with Local Communities

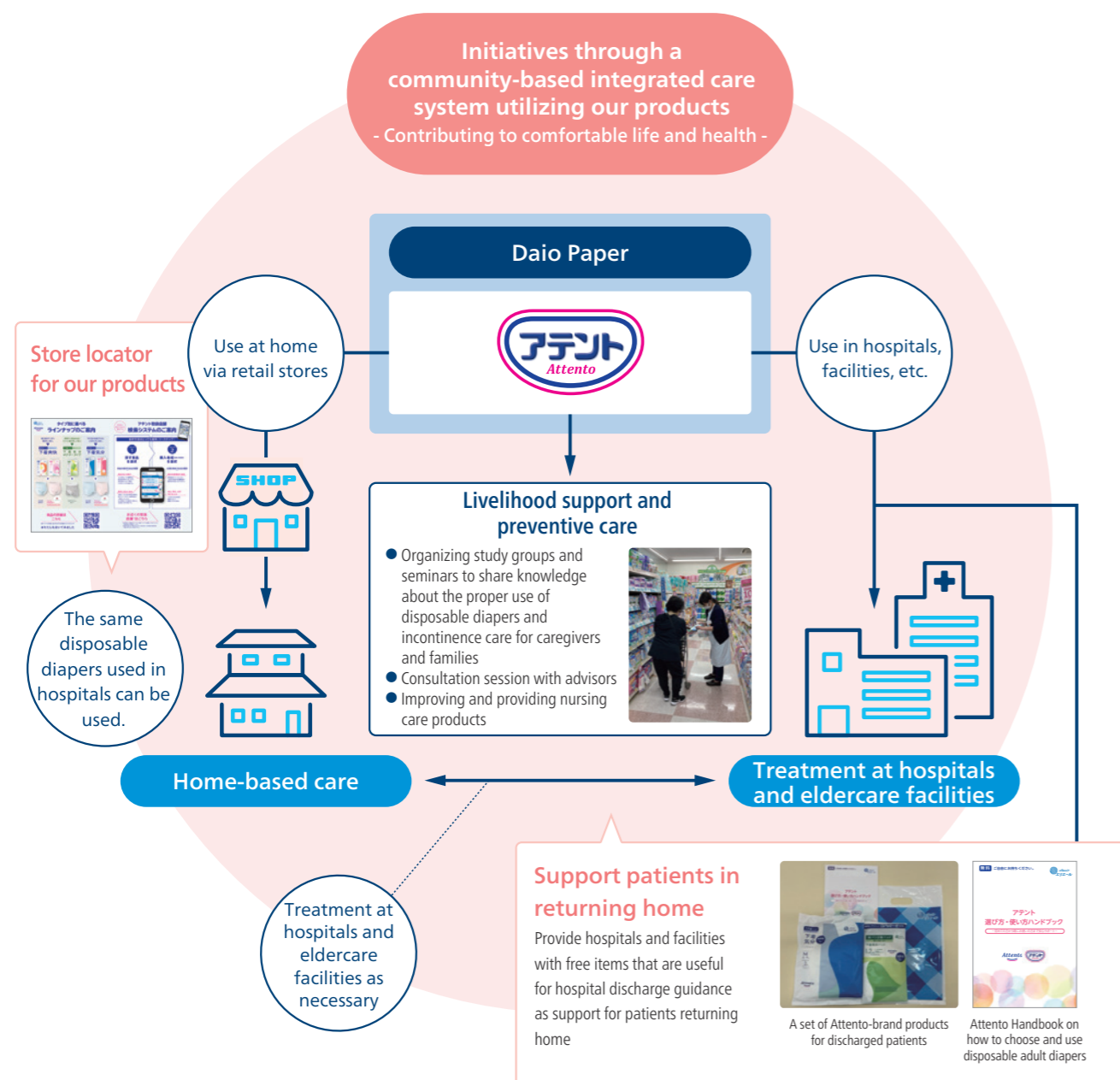


Material issue: Coexistence with local communities

The proportion of the population aged 65 and over is increasing globally year by year, and the Japanese population, in particular, is aging rapidly. As the advancement of health care has extended life expectancy, there is growing interest in “healthy life expectancy,” which refers to the length of time one can live independently without being burdened by health problems. We believe that the mission of our brand “Attento” is to support

this healthy life expectancy, and under the slogan “Not Alone, Together for Everyone,” we provide nursing care products and services to address the various concerns that come with aging, working toward the realization of a community-based society in which no one is isolated and everyone has a place to rely on and helps one another.

[Initiatives through a community-based integrated care system]



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

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

As the birthrate declines and the population ages, there is the risk of a decline in the quality of care at nursing care facilities due to a shortage of caregivers. In particular, problems relating to incontinence can affect healthy life expectancy. Therefore, it is important to increase the number of caregivers with knowledge of incontinence care. To address this challenge, in 2017, we began certifying “Attento Meister Professionals” and have been sharing knowledge about the proper use of disposable diapers and incontinence among caregivers. As of the end of June 2024, 7,632 people have been certified, with the goal of certifying 22,000 people by FY2030. In addition, incontinence care advisors throughout Japan help streamline caregiving operations and improve care.

We provide information on managing incontinence-related dermatitis, applying for the incontinence support premium under long-term care insurance, incontinence care reports, and the latest industry news. We also improve caregiver knowledge and skills through study sessions and onsite advice for diaper changing. By implementing these measures, we aim to enhance the quality of life for our product users, support caregiver growth and motivation, and realize incontinence care that ensures both caregivers and recipients can achieve self-fulfillment in a secure and comfortable manner.



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



	FY2019 result	FY2020 result	FY2021 result	FY2022 result	FY2023 result	FY2024 estimate	FY2026 target	FY2030 target
Number of certified Attento Meister Professionals	1,273	1,805	2,778	4,787	7,294	9,000	12,700	22,000

Improved quality of sleep by reducing the mental and physical burden of changing diapers at night

Extending healthy life expectancy is an important mission for us. However, problems of incontinence hinder independent life and prevent people from practicing the three principles of health: a balanced diet, appropriate exercise, and sufficient rest and sleep. Concerns about incontinence often deter the elderly from leaving home, resulting in fewer opportunities for physical activity. In addition, changing diapers at night disrupts sleep for both caregivers and care recipients, negatively impacting their quality of life. Therefore, we have made particular effort to develop a high-performance and highly absorbent care product for night time. This new product aims to reduce the number of diaper changes at night, reduce the risk of skin problems, and ensure quality sleep. Going forward, we will continue to actively promote awareness-building activities aimed at improving sleep and incontinence care and strive to develop products that contribute to improving the quality of life of the users of our products.



Material issue: Establishment of sustainable supply chain

The Daio Group aims to enhance its corporate value and contribute to international and local communities by fulfilling its corporate social responsibility (CSR) called for globally and actively participating in the SDGs. While we strictly comply with laws and regulations and follow social norms and internal rules, we also respect the cultures and customs of our business partners and actively promote efforts to realize a sustainable society.

Specifically, we have established the “Daio Group Sustainable Procurement Guidelines Based on the SDGs,” which address respect for human rights, environmental conservation, health and safety, a business continuity plan (BCP), and contributions to local communities, and strive to ensure that both the Company and our

business partners fulfill our respective social responsibilities through fair and equitable transactions. We conduct a survey among our business partners every year based on the Sustainable Procurement Guidelines to confirm their consent to the Guidelines and that they are conducting procurement in accordance with the Guidelines, thereby ensuring a stable supply chain mechanism and accelerating the improvement of quality and technical capabilities. In the FY2023 survey, 61% of business partners received a score of 3.5 or higher on a 5-point scale (response rate: 100%), with the average score being 3.8. We will continue to provide support to help suppliers who received a low score improve and promote sustainable procurement activities throughout the entire supply chain.

https://www.daio-paper.co.jp/wp-content/uploads/2024.SDGs-Procurement-Guidelines_eng.pdf

	FY2019 result	FY2020 result	FY2021 result	FY2022 result	FY2023 result	FY2024 target	FY2026 target	FY2030 target
Supplier survey response rate	-	87%	95%	96%	100%	100%	100%	100%
Percentage of suppliers rated 3.5 or higher on a 5-point scale	-	56%	62%	61%	61%	75%	85%	90%
Retention rate of forest certification at home and abroad	100%	100%	100%	100%	100%	100%	100%	100%

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



Human Capital Management



Material issue: Respect for human rights, development of human resources, and compassion for employees

Human resources strategy to enhance corporate value

Based on the belief that the source of the value creation of the Company is our people, we have begun transforming our organizational and corporate cultures into those that encourage individual employees to take up challenges and support their growth. We believe that human resources who are positive about change and challenges will autonomously work to create new value for the Daio Group and that corporate value is enhanced when such individuals come together to drive corporate transformation. To build a corporate culture in which the Company provides employees with opportunities to thrive, invests in their growth, and encourages them to take on new challenges by utilizing diverse ideas and capabilities, we have established three pillars for our human resources strategy: "Supporting growth of individual employees," "Making the most of our diversity," and "Promoting change and challenges." To enhance the effectiveness of our strategies, we believe that it is essential to lay a foundation of a fair and co-creative relationship between the Company and its employees. Thus, we will promote the Daio Group's human capital management, grounded in psychological safety, by creating an environment in which employees can work with a sense of security and enthusiasm and using dialogue with each one of our employees as the basis of communication to realize the growth of both the Company and individual employees.



Takeshi Kojima
Executive Officer
General Manager of
Personnel Division
Corporate Unit

Our mission: To realize an abundant and affable future



How to promote the strategy

We have established the Human Resources Development Meeting as a forum to discuss human resources policies and the Diversity Committee as a forum to discuss how to achieve the diversity, equity and inclusion (DE&I). These forums are chaired by the Representative Director and attended by the general manager of each business unit, and they hold flexible and intensive discussions. Measures discussed at the Human Resources Development Meeting and the Diversity Committee are reported to the Board of Directors as necessary, and discussions about the kind of organization the company is aiming for and ideal talent we are looking for are held among members, including Outside Officers, to carry out comprehensive decision-making.



Human resources portfolio aligned with management strategy

We are currently working to improve our human resources and organization-related structure in line with our Long-Term Vision, "Daio Group Transformation 2035," and are particularly focusing on the Pet Care Business, development of advanced materials, overseas business, and new businesses in the H&PC field. We will nurture talent who are necessary for our growth by assigning highly motivated and skilled employees demanding duties that push their boundaries. We will also expose employees to new knowledge and experiences beyond their current responsibilities through a more flexible transfer system that adapts to changing business needs. We also actively recruit experienced professionals, aiming to revitalize the Company by acquiring knowledge and expertise in new business fields and incorporating diverse ideas and perspectives. In recent years, in order to expand our global talent pool, we have been sending young employees to overseas subsidiaries to gain experience outside Japan at an early stage, thereby nurturing talent who will lead our overseas business in the future.

We also place emphasis on the systematic development of the next generation of leaders, and we develop talent by defining clear criteria for candidates for executive positions, in cooperation with the Nomination Committee, providing training, and actively using job rotation, in which promising young talent is assigned to various key positions.



Linking human resources strategies and initiatives

In order to measure the effectiveness of initiatives derived from our human resources strategies, we set targets to be achieved for each strategy and monitor their progress. The targets are linked to the questions in the Engagement Survey (ES) introduced in 2021. The ES not only measures whether the relationship between the Company and its employees is good but also analyzes the strengths and weaknesses that can be identified from the results of the ES.

One of the weaknesses identified in the most recent ES is the relationship between the Company and its employees. In response to the result, we have established "Respect for individual employees" and "Fair and co-creative relationships between the Company and employees" as the foundation of our human resources strategy and will pursue the following three strategies: "Supporting growth of individual employees," "Making the most of our diversity," and "Promoting change and challenges." The details of measures for each strategy are described below:

Human resources strategy	Strategy-specific goals to be achieved	HR initiatives for each goal	Satisfaction score in FY2023	Satisfaction score target for FY2026	Satisfaction score target for FY2030
Human resources strategy I Supporting growth of individual employees	Drawing out employees' individuality and competencies	<ul style="list-style-type: none"> Provide opportunities for autonomous learning Develop global talent from early phase Nurture the candidates of next generation leaders 	2.9	3.3	3.6
Human resources strategy II Making the most of our diversity	Employees' job satisfaction and motivation	<ul style="list-style-type: none"> Enhance empowerment of women employees Promote understanding of diversity Life-work balance 	3.2	3.5	3.8
Human resources strategy III Promoting change and challenges	Fairness of evaluation for each employee	<ul style="list-style-type: none"> Define ideal talent we are looking for Cultivate a corporate culture that rewards employees who take on challenges Reform the evaluation system Shift to coaching-based management style 	2.9	3.3	3.6
Foundation of human resources strategy Respect for individual employees, fair and co-creative relationships between the Company and employees	A spirit of mutual respect across the Daio Group	<ul style="list-style-type: none"> Promote mutual understanding through dialogue Promote employees' well-being 	2.9	3.3	3.6

Improving business performance (for the Company) and quality of life (for employees)

Our mission: To realize an abundant and affable future

* The satisfaction score is calculated by taking the simple average of the responses given by employees on a scale of 1 to 5, with a maximum score of 5.0.

* Initiatives for achieving Targets 4, 6, and 9 of Goal 3, Target 4 of Goal 4, Targets 1, 5, and C of Goal 5, Targets 5, 7, and 8 of Goal 8, and Targets 2 and 3 of Goal 10



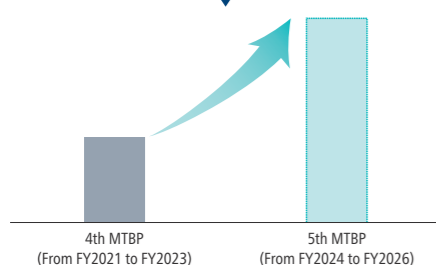
Human resources strategy I: Supporting growth of individual employees

We believe that the skill acquisition of employees, leveraging their desire to learn and hard work, will lead to growth for both individual employees and the Company. Thus, our basic policy for human resource development is to provide them with education and opportunities for growth that enhance their motivation and autonomy. We are working to create an environment and tools that allow all employees to develop their career autonomously, rather than in a one-fits-all manner.

Investing in education and training

Education and training expenses
(unconsolidated)

Budgeted at **about 2.4 times** the budget of the 4th MTBP



The 5th Medium-Term Business Plan (MTBP) budgets education and training expenses of approximately 2.4 times those of the 4th MTBP. We have established a hierarchy-based training system as our basic education for employees and are investing in human resource development necessary for our growth. However, the pace of the development of global talent is not satisfactory, and we need to nurture such global talent as speedily as possible. To that end, we will introduce overseas language training for young employees, along with intercultural exchange, and speed up the development cycle.

In addition, as our managers tend to focus on teaching when managing their direct reports, we will provide them with training to transform their management style into coaching and career support as the basis for management. The measures to be implemented in phases starting from FY2024 are as follows:

Overseas language training program for young employees / training for managers to promote coaching and career support for their direct reports / education programs to support reskilling

Self-directed career development support

As a measure to encourage employees to take the initiative to promote their own careers, we have introduced the “Daio Career Challenge” program (an in-house job posting system that enables employees to choose their career) and the “Self-reporting system” (a system in which employees can report their preferences in their job rotation, etc.). We strive to understand the career aspirations of our employees and support their individual career development through dialogue between employees and their managers. In addition, we provide career design training for each generation of employees and training for new managers as part of our hierarchical education, and we have introduced education programs that support employees’ voluntary learning, such as subsidies for distance learning.

Development of global talent

In order to accelerate the development of talent who thrive globally, in addition to continuing to implement online English learning programs and subsidize the expense for taking the TOEIC IP test, we also introduced a new overseas language study program for young employees from FY2024. In the future, we will also focus on training for intercultural understanding and communication as well as overseas study for mid-level employees and those in management positions (support for obtaining MBAs and acquiring specialized skills, etc.) to develop global talent. In conjunction with the aforementioned training, we will plan and implement strategic assignment and job rotations.

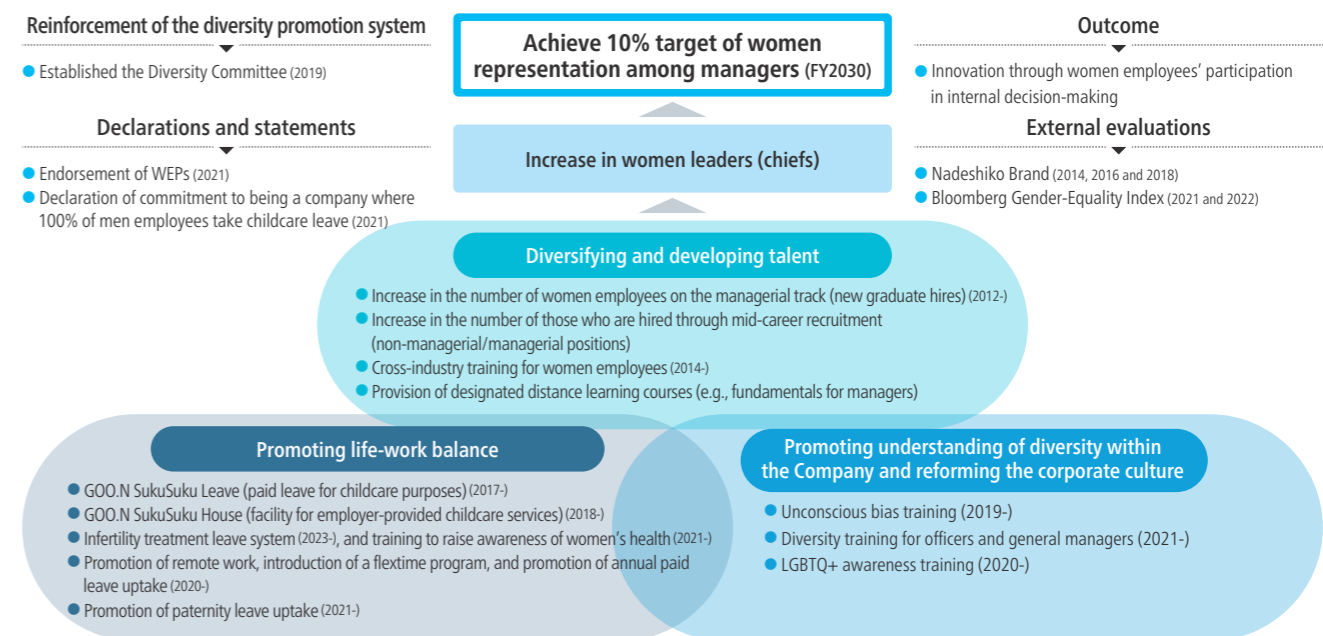
KPIs for supporting growth of individual employees

	FY2020 Result (Unconsolidated)	FY2021 Result (Unconsolidated)	FY2022 Result (Unconsolidated)	FY2023 Result (Unconsolidated)	FY2024 Target (Unconsolidated)	FY2026 Target (Unconsolidated)	FY2030 Target (Unconsolidated)	Target range
Percentage of employees voluntarily participating in the programs*	—	11.4%	11.5%	9.4%	15.0%	20.0%	30.0%	Daio Paper
Employees with a TOEIC score of 600 or higher	14.4%	15.7%	15.6%	17.4%	20.0%	25.0%	30.0%	Daio Paper

* The percentage of employees who participated in programs voluntarily, not by order.

Human resources strategy II: Making the most of our diversity

In today’s rapidly changing world, we believe that it is essential to have employees with diverse experiences and knowledge share their wisdom, discuss the issues, and make better choices based on such discussions for the Company to continue to grow. We are therefore promoting DE&I, which means securing and developing diverse talent and creating a culture and system in which each individual employee can work with motivation and thrive, while transforming ourselves into a group that continues to take on challenges for the future. In particular, we are focusing on promoting women employees’ empowerment in advancing the transformation of the Company. The majority of purchasers of our Home & Personal Care (H&PC) products are women, and therefore having women employees play an active role in the H&PC business unit is an integral part of our business growth strategy. Furthermore, we believe that by transforming our environment and working style in all divisions to those that enable women to fully demonstrate their potential, we can create a workplace in which all employees can thrive, regardless of gender, disability, nationality, or age, leading to innovation through new values and perspectives. As we expect that more and more men and women will face the challenge of balancing work with childcare or elderly care in the future, we will strengthen support measures for those who are facing such challenge and programs to promote related understanding throughout the Company.



TOPICS Promoting men's active participation in childcare

As a highlight of our diversity promotion, in 2021, we declared our goal of having 100% men employees take paternity leave. For employees whose families are expecting a child, both their superiors and the Personnel Division would actively encourage them to take paternity leave, and take actions to create an environment that makes it easier for them to realize their desired life-work balance. More men now take paternity leave, and we plan to continue improving the gender gap in balancing work and childcare. Average number of days of paternity leave taken by men employees in FY2023: 45 days (consolidated)

My experience of paternity leave

During my paternity leave, I was able to avoid confusion within the team by consulting with my superior in advance to determine priorities and share information regarding which tasks should be assigned to which team member. The paternity leave allowed me to share childcare-related concerns with my wife, and it also gave me the opportunity to think about what kind of functions are required in childcare products. My experience of being closely involved in child-rearing has proved extremely useful in my marketing work, and the division of housework and child-rearing tasks between my wife and me has also been useful in managing my team. An increasing number of colleagues are taking paternity leave, and I can feel its growing acceptance within the Company.



Atsushi Kuroda
Manager,
Baby Care Group
Baby & Feminine Care Brand
Marketing Division

* Number of days of paternity leave taken in FY2023: 33 days

KPI items for creating a culture that makes the most of our diversity

	FY2020 Result (Unconsolidated)	FY2021 Result (Unconsolidated)	FY2022 Result (Unconsolidated)	FY2023 Result (Unconsolidated)	FY2024 Target (Unconsolidated)	FY2026 Target (Unconsolidated)	FY2030 Target (Unconsolidated)	Target range
Percentage of women managers	2.2%	2.8%	2.7%	5.2%	2.7%	6.4%	7.0%	7.0% 8.0% 10.0%
Percentage of women leaders (chiefs)	9.0%	8.3%	11.1%	—	13.8%	6.8%	7.0%	7.0% 9.0% 12.0%
Percentage of those who are hired through mid-career recruitment*	30.2%	52.4%	22.8%	—	43.0%	—	Unconsolidated 50.0%	Unconsolidated 50.0%
Percentage of paternity leave uptake	6.3%	28.9%	82.7%	79.3%	90.9%	65.3%	100.0%	100.0% 100.0%

* Ratio to the total number of new entrants, including new graduates, who joined the Company in the same fiscal year.



■ Human resources strategy III: Promoting change and challenges

The environment surrounding the Company has changed dramatically in recent years, and it has become vital for us to build a new business foundation, such as carbon neutrality, global expansion, and new material development. In order to nurture much talent with a mindset of change and challenge under such an environment, we are working to build a corporate culture that supports employees who take on challenges by establishing a human resources system that welcomes ideas aiming for overall optimization as a basic corporate stance, rewarding those who take on challenges, and appreciating proactiveness, as well as by actively encouraging and listening to the opinions of members and supporting change and challenges through dialogue.

■ Desired personnel profile and organizational culture

In our Long-Term Vision, "Daio Group Transformation 2035," we recognize that in order to realize transformation, we need talent who are open to change and differences and are willing to take on challenges. We have therefore redefined the personnel profile we are looking for as self-motivated people who are positive about change and challenges. In addition, we are promoting a shift to a corporate culture that supports employees who take on challenges by adopting a basic stance that supports change and challenges so that all employees can demonstrate their best performance. To that end, we strive to create innovation and change their mindset by having self-driven talent who are positive about change and challenges and experienced professionals with knowledge and expertise recruited from the outside work side by side and by promoting dialogue among those with diverse values.

■ Revision of employee evaluation and compensation systems

In April 2024, we revised the evaluation criteria and behavioral requirements for employees on a managerial track, which take into account, in addition to capabilities in line with the Company's standards, fundamental attitudes and behavior toward one's work, such as proactiveness and open communication, as evaluation items, creating a mechanism to encourage employees to take on challenges and contribute to their team. Furthermore, by changing the compensation system from a seniority-based system to a merit-based one, we will increase the transparency of evaluation and compensation, promote change and challenges, and realize the growth of each individual employee. We provided 489 managers who would evaluate their subordinates in FY2023 with evaluator training. The aim of the training is to accurately understand the performance and behavior of each one of the employees, treat them fairly, understand their respective strengths and weaknesses, establish necessary measures to address issues for the future, and equip managers with the ability to support subordinates in developing capabilities and improving skills. Going forward, we will also offer this training to employees who are expected to become managers in the near future to foster a corporate culture that encourages taking on challenges and promote the growth of each individual employee.

■ Foundation of human resources strategy: Respect for individual employees, fair and co-creative relationships between the Company and employees

We believe that a sound, amicable, and co-creative relationship based on trust between the Company and its employees is essential to realizing the Daio Group's human resources strategy. We are therefore working to create a workplace where safety and a sense of security are guaranteed and employees can work enthusiastically to achieve self-fulfillment. In particular, going forward, we aim to create an organizational culture that promotes dialogue as a key element to encourage employees to take on challenges.

■ Reforming organizational culture - Town hall meeting -

As part of efforts to foster mutual understanding through dialogue with individual employees and open communication and to incorporate a variety of opinions and ideas from employees into business management, we have started holding town hall meetings where the President visits each workplace and engages in an open exchange of opinions with several voluntary members about the future of the Company. After the first town hall meeting was held at the Tokyo headquarters in May 2024, the President declared that he would take the participants' opinions seriously and would make every effort to invest in talent and reform the Company's organizational culture. The satisfaction level of the participants with the town hall meetings is very high, and we will continue holding the meetings mainly at branches, factories and domestic subsidiaries.



■ Dialogue-based measures

To enhance communication between managers and their direct reports, in addition to weekly action and goal sharing sessions, we conduct regular one-on-one meetings too. These sessions create a space for active listening and open dialogue, supporting team members in taking on new challenges while fostering mutual learning and fresh insights. Additionally, in the "Message Relay" initiative involving all unit and department general managers, in addition to sharing their unit and department goals and objectives, the general managers also share personal anecdotes and insights into their personalities. By revealing this more personal side, we are aiming to create a more open and transparent organizational culture. In FY2023, we launched an internal communication site, designed to let every employee speak up and energize communication across the company. We have structured the site to foster cross-departmental interaction for new discoveries and insights. One recent development is the company-wide sharing of work process improvement cases, which is leading to improvements in other departments.

[Image of internal communication site]

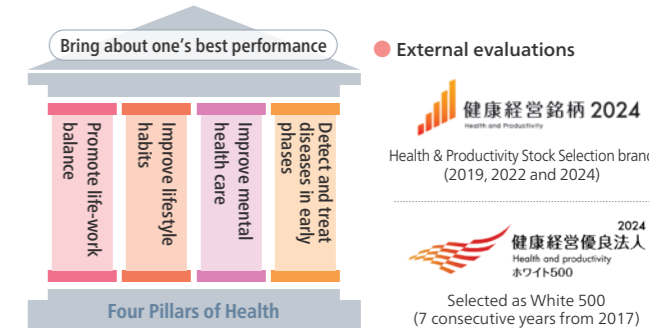


We share the know-how of equipment maintenance, etc. within the Production Unit.

■ Health and productivity management

By implementing health promotion measures that are tailored to each workplace and living environment, employees can live with vitality and bring about their best performance in the workplace. This is an indispensable foundation for the Company's sustainable growth, realized through increased productivity, organizational revitalization, and improved business performance. The Group has established the "Four Pillars of Health" and is undertaking initiatives to raise the health literacy of each employee and encourage them to take an interest in maintaining and improving their own health. The employee support system involves health promotion staff at the headquarters, factories, and branches working together to implement education and events and assisting employees in maintaining their health. The effectiveness of measures is regularly reviewed by the Health Management Committee, chaired by the Chief Health Officer (CHO), and discussions are held to make measures even more effective. These efforts have been recognized, and in FY2023 we were certified as a "White 500" company for the seventh consecutive year and selected as a "Health &

Productivity Stock Selection" brand for the third time. Going forward, we will manage employees' health in an efficient and effective way, using a common health management system across all Group companies, and will strengthen our health and productivity management throughout the Group by jointly implementing education and health events.



[KPIs for health and productivity management]

		FY2020	FY2021	FY2022	FY2023	FY2024		FY2026	FY2030	Target range
		Result (Unconsolidated)	Result (Unconsolidated)	Result (Unconsolidated)	Result (Unconsolidated)	Target (Unconsolidated)	Target (Consolidated)	Target (Consolidated)	Target (Consolidated)	
Promote life-work balance	Annual paid leave uptake rate	67.2%	71.7%	75.0%	81.3%	74.8%	70.0%	70.0%	80.0%	90.0%
	Overtime work hours	21 h/Month	23 h/Month	23 h/Month	21 h/Month	18 h/Month	20 h/Month	20 h/Month	15 h/Month	10 h/Month
Improve lifestyle habits	Smoking rate	26.1%	23.9%	22.2%	22.2%	30.1%	21.5%	28.0%	25.0%	20.0%
	Percentage of those who sleep well	71.2%	72.0%	70.3%	69.5%	58.2%	72.0%	60.0%	65.0%	70.0%
Improve mental health care	Percentage of those with high stress	11.8%	13.1%	13.0%	12.1%	17.4%	11.5%	16.0%	14.0%	10.0%
Detect and treat diseases in early phases	Follow-up screening uptake rate	71.0%	71.4%	73.5%	64.2%	37.0%	100.0%	100.0%	100.0%	100.0%

■ Health and safety activities

At the Daio Group, we prioritize the health and safety of our employees and are committed to creating a "vibrant work environment that prioritizes employees' safety and sense of security" and where employees can work with integrity and enthusiasm. Providing a safe and secure working environment for all people involved in production activities not only protects the lives and health of all those people but also helps maintain the happiness of their families. We also believe that fostering a "safe and secure working environment" ensures the sustainable growth

and stability of the Company, which is to say, it is a shortcut to achieving our management philosophy of "Shaping an abundant and affable future for the world." The Daio Group's voluntary safety activities are based on the three pillars of the safety philosophy: "safety awareness," "safe environment," and "safe work." Based on these, we continue to identify risks and take countermeasures, aiming for zero serious accidents for all employees.

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

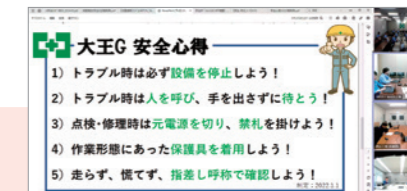
[Case study: "Safety Wednesday," initiative to achieve zero accidents]

With the goal of reducing lost-worktime injuries, we hold a "Safety Wednesday" web conference every Wednesday. This is a safety activity conducted jointly with all Group manufacturing companies in Japan, and more than 200 employees participate each time. We share improvements of accident prevention and countermeasures against similar types of accidents based on case studies.

Topics at Safety Wednesday

- **Rolling out best practices**
The examples of improvement implemented by each group company are shared throughout the Group to help prevent accidents. Reports introducing these examples are also posted on the Company's internal social media, and we accumulate relevant data.
- **Looking back on serious accidents that occurred in the past**
To prevent serious accidents from recurrence, we strive to improve safety awareness by remembering lessons learned from past accidents and reconfirming whether improvements are being maintained and properly managed.

- **Workplace improvement through risk assessment**
We use risk assessment methods to identify and improve unsafe equipment and work practices that could lead to accidents, and we are promoting improvements to the working environment so that employees can work safely. We secure safety budgets according to risk priorities to make our equipment fundamentally safe.



"Safety Wednesday" web conference



Excerpts from risk assessment of safety-related cases

[KPIs for health and safety activities]

	FY2020 result	FY2021 result	FY2022 result	FY2023 result	FY2024 target	FY2026 target	FY2030 target
Lost-time injury frequency rate*	1.11	1.14	1.01	0.88	0.87	0.80	0.69

* Calculated for the entire year. Covered only consolidated companies (manufacturing subsidiaries in Japan, etc.)



Daio Group's initiatives for respect for human rights

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

[Daio Group's initiatives for respect for human rights]



Assessment of human rights risks

Among all stakeholders involved in the Daio Group’s business activities (employees, shareholders/investors, communities including indigenous peoples, business partners, NGOs/NPOs, etc.), we assess human rights risks, with a focus on stakeholder groups who are considered to be high priorities from a human rights perspective—employees, temporary workers, third-party contractors, suppliers, communities including indigenous peoples, and customers. In collaboration with external experts, we conducted surveys to identify

country, industry and business-specific human rights issues in the regions in which the Daio Group operates, with reference to the databases of ESG risk information providers, the International Bill of Human Rights and the ILO Declaration on Fundamental Principles and Rights at Work. We also conducted a risk impact assessment to assess the impacts of human rights risks from the perspectives of scope, scale, remediability, likelihood of occurrence, etc. and have identified eight particularly significant human rights issues for the Daio Group.

		Human rights risks requiring priority attention			
Likelihood of occurrence	High	<ul style="list-style-type: none"> ● <u>Overworking and long working hours</u> 	<ul style="list-style-type: none"> ● <u>Right to enjoy safe and healthy working conditions (safety and health)</u> 		
	2	<ul style="list-style-type: none"> ● Equal pay for equal value work ● Right to rest and leisure ● Right to enjoy an adequate standard of living and health ● Harassment ● Access to water resources 	<ul style="list-style-type: none"> ● <u>Safety and health of consumers</u> ● <u>Right of privacy</u> ● <u>Impact on the lives of local residents</u> ● <u>Environmental management</u> 		
	1	<ul style="list-style-type: none"> ● Freedom of residence and movement ● Right to form and join labor unions ● Discrimination in employment conditions and treatment ● Discrimination in opportunities and performance evaluation ● Protection of motherhood and children ● Freedom of thought and religion ● Right to social security 	<ul style="list-style-type: none"> ● <u>Child labor</u> ● <u>Forced labor</u> ● <u>Rights of young workers and consideration to them</u> 		
Low	1-2	3-4	5-7	8-9	High

* The underlined items are the eight most salient human rights issues for the Daio Group.

Establishment of a grievance handling mechanism and access to remedies

The Daio Group has established the “Corporate Ethics Hotline,” an internal whistle-blowing system that guarantees the anonymity of whistleblowers, as a grievance handling mechanism. We inform employees about the internal whistle-blowing system regularly—at least once a year—through compliance training.

In addition, we conduct procurement in accordance with the Daio Group Sustainable Procurement Guidelines Based on the SDGs, and have established a complaints desk for suppliers to receive complaints and opinions from suppliers.



Environmental Conservation



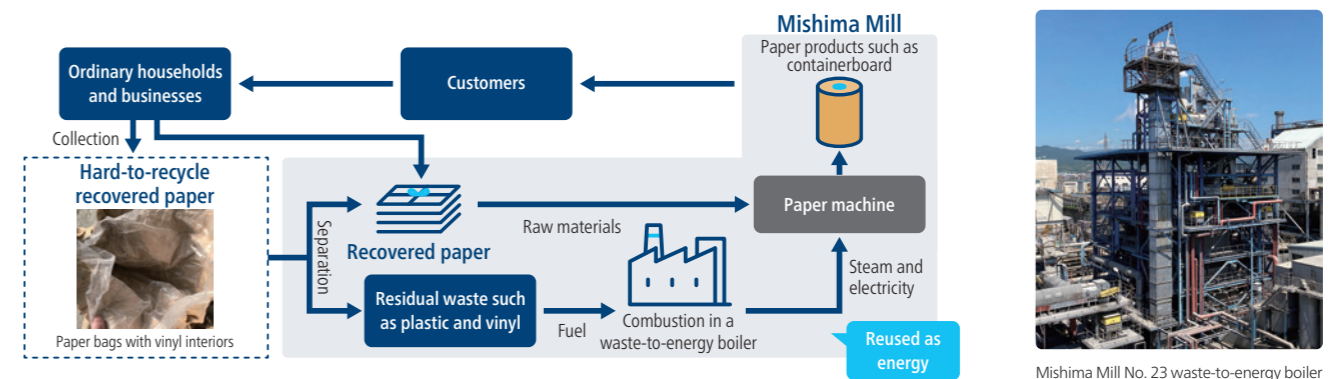
Material issue: Realization of a recycling-oriented society

Promotion of use of hard-to-recycle recovered paper*

At the Mishima Mill, our core paper mill, we collect paper waste that was previously landfilled or incinerated, as hard-to-recycle recovered paper, and then separate it into recovered paper and non-paper materials, such as film, using our proprietary processing technology. After separation, the recovered paper is reused as a raw material for papermaking, while the residual waste such as plastic and vinyl is used as fuel for waste-to-energy boilers for power generation. This contributes to securing recovered paper materials and reducing GHG emissions, as well as solving the marine plastic pollution problem. In addition, an increase in the amount of paper waste in combustible waste generated by households and businesses has led to an increase in GHG emissions in each municipality. We are

planning to further enhance and expand our dust extraction and sorting capabilities in order to promote the collection and use of paper waste and miscellaneous paper included in combustible waste. In the future, we will strengthen our partnerships with companies and governmental agencies generating wastepaper, as well as wastepaper wholesalers that support Japan’s wastepaper collection, make proposals that will lead to reducing the environmental impact, and work to discover new types of hard-to-recycle recovered paper. While working to solve social issues, we will strive to achieve the target (KPI) of 30% of the ratio of hard-to-recycle recovered paper pulp in paper and paperboard products by FY2030.

* Difficult-to-process recovered paper that contains foreign matter such as film and plastic

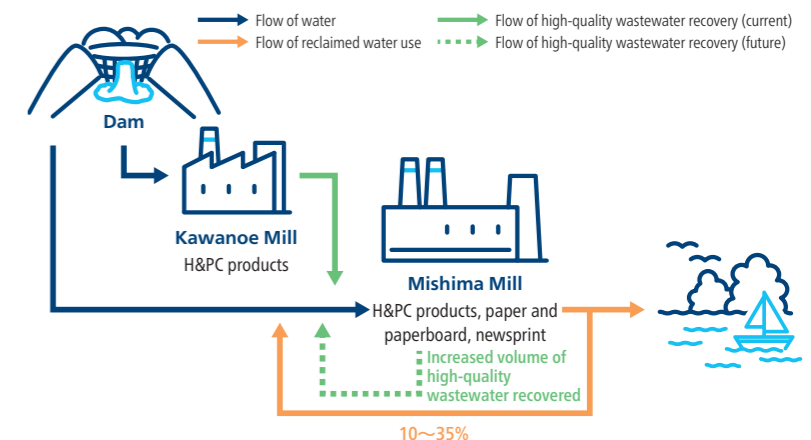


	FY2019 result	FY2020 result	FY2021 result	FY2022 result	FY2023 result	FY2024 target	FY2026 target	FY2030 target
Ratio of hard-to-recycle recovered paper pulp in containerboard*	18.7%	15.7%	15.7%	14.2%	17.0%	18.2%	18.3%	30%

Efforts for effective use of water at the Mishima Mill

It is generally said that 100 m³ of water is needed to produce one metric ton of paper or pulp, but the Mishima Mill produces using less than half that amount. The Mill reuses water in a way that only a mill that produces all types of paper can, for example, using wastewater from the manufacture of H&PC products (main raw material: pulp) to produce paper, paperboard, and newsprint (main raw material: recovered paper). Furthermore, during periods of drought, we reuse 10-35% of the water discharged after comprehensive wastewater treatment to save water. We will further promote the separation of high-quality wastewater and its reuse for various purposes, thereby reducing water consumption.

[Flow of water at Mishima Mill (drought season)]



* Initiatives for achieving Target 3 of Goal 6, Target 4 of Goal 8, Target 5 of Goal 12, and Target 1 of Goal 14



Material issue: Response to climate change

Initiatives toward a Carbon-free Society

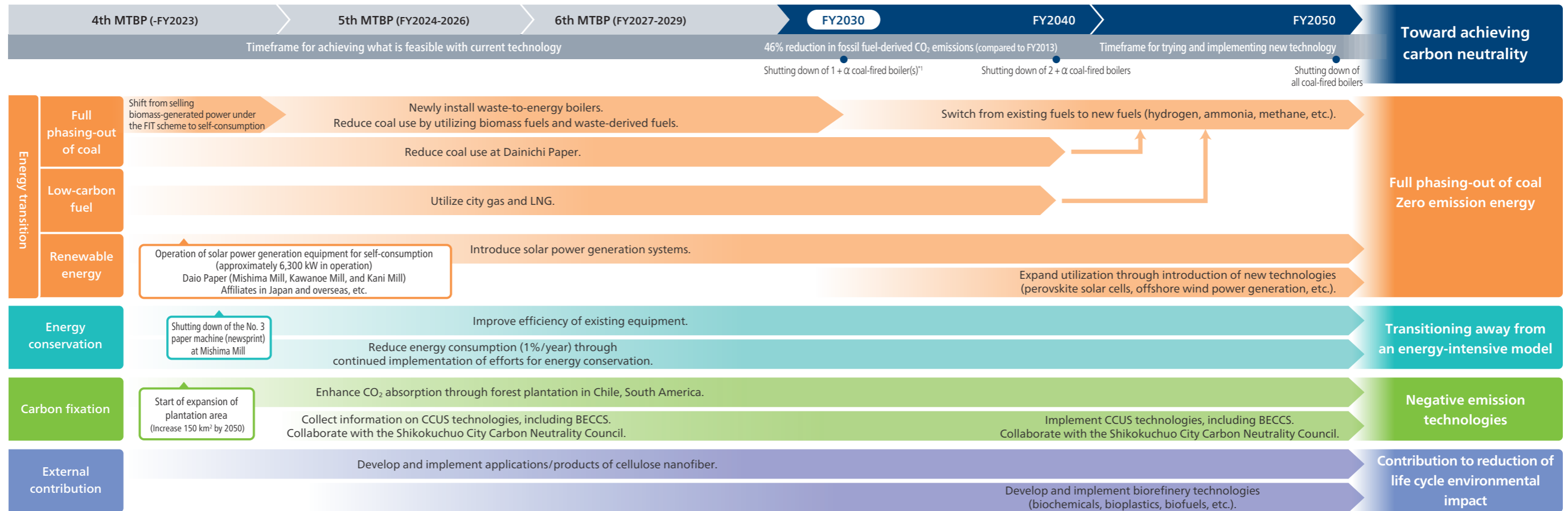


The Daio Group aims to achieve carbon neutrality by FY2050. In accordance with the Daio Global Environmental Charter, we have been promoting a variety of environmentally friendly initiatives, including energy conservation and the use of biomass fuels.

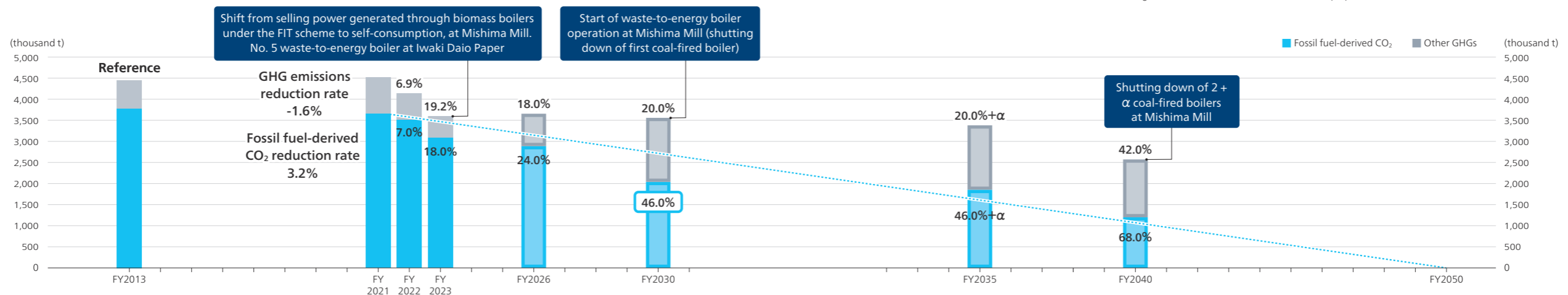
Recognizing that addressing climate change is one of the most important management issues, we will continue to formulate and implement measures in line with the roadmap that we have established to achieve carbon neutrality, while making disclosures and efforts in accordance with the recommendations of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

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

Roadmap to Achieving Carbon Neutrality by 2050



Estimated CO₂ emissions reduction





● Message from the General Manager of the Production Division

We are committed to advancing decarbonization efforts in harmony with local communities, aiming to achieve both carbon neutrality and sustainable management.

Toshikatsu Tanahashi

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

Our progress toward achieving carbon neutrality by 2050

The Daio Group has established a roadmap for achieving carbon neutrality by FY2050 through three key approaches: “energy transition and full phasing out of coal,” “energy conservation,” and “carbon fixation.” We plan to shut down the three coal-fired boilers at the Mishima Mill in stages, one every ten years in 2030, 2040, and 2050. During our transitional period toward achieving carbon neutrality, we aim to reduce fossil fuel-derived CO₂ emissions and GHG emissions from production activities by 46% and 20%, respectively, by FY2030, compared to FY2013 levels. To achieve the target for FY2030, we plan to construct a waste-to-energy boiler at the Mishima Mill and put it into operation in FY2030. The construction is progressing as planned. Alongside shutting down one coal-fired boiler, we will implement various initiatives to meet the target. These initiatives include promoting energy conservation, introducing renewable energy sources such as solar energy, and optimizing the mill’s energy efficiency.

In FY2023, we advanced our plan to shift from selling power generated through the biomass boiler under the FIT scheme to self-consumption, originally scheduled for FY2030 or later. As part of this initiative, starting in April 2023, we transitioned 55,000 kW of electricity from coal to biomass power generation. We also shut down a production machine and transferred production to other production machines, thereby optimizing the energy use efficiency of the mill. To drive energy conservation, we engage operators who have thorough understanding of the production site to propose targeted improvements, particularly in equipment efficiency. Each month, the best proposals are selected and implemented, and successful initiatives are also shared with other mills to enhance energy conservation efforts across the Group. As a result, in FY2023 we achieved an 18.0% reduction in fossil fuel-derived CO₂ emissions and a 19.2% reduction in GHG emissions compared to FY2013. In February 2023, Iwaki Daio Paper started operation of a waste-to-energy boiler that effectively utilizes waste-derived fuel (hereinafter, No. 5 boiler). The reconstruction of the biomass boiler (hereinafter, No. 4 boiler) that has been suspended due to an accident, is progressing as planned and is scheduled to

resume operation in July 2025. With No. 5 boiler currently in operation and the No. 4 boiler set to resume operation, Iwaki Daio Paper will, from July 2025, achieve 100% self-generation of electricity using only waste and biomass fuels, eliminating the need for fossil fuels. Furthermore, any surplus electricity will be supplied to the adjacent Elleair Product’s Fukushima Factory, a Group company.

As the Daio Group, we are midway to achieving our FY2030 target. Moving forward, we will adapt to changes in the market environment, particularly in paper and paperboard demand, while optimizing our entire mill’s production system and improving the energy efficiency of our facilities. In addition, we will continue to take measures such as further enhancing energy conservation initiatives and transitioning to renewable energy sources, including solar power. Furthermore, we will work to reduce energy consumption by actively researching and considering the adoption of the latest energy-saving technologies from papermaking machinery and equipment manufacturers in order to reduce fossil fuel-derived CO₂ emissions and GHG emissions.

Challenges and anticipated risks for future initiatives toward carbon neutrality

We are currently implementing a concrete action plan to shut down one coal-fired boiler and reduce fossil fuel-derived CO₂ and GHG emissions to the target levels by FY2030. We are confident that these goals are achievable. However, uncertainties and challenges remain in our plan for FY2040 and beyond. To respond to the shrinking paper and paperboard



Biomass boiler (FIT scheme) at Mishima Mill



Waste-to-energy boiler (No. 5 boiler) at Iwaki Daio Paper

market, we plan to develop new businesses in the field of advanced materials, such as cellulose nanofiber (CNF) and biorefinery. Our energy policy toward carbon neutrality must balance the reduction in energy consumption from shutting down paper and paperboard production facilities with the increase in energy consumption required for advanced materials businesses. Producing CNF, a dream new material with high added value, demands significantly more energy than paper and paperboard. Biorefinery operations, on the other hand, will require less. We are currently simulating various scenarios to ensure sustainable growth, assess the business viability of each field, and consider the future vision and energy balance of our mill. These ongoing discussions involve top management and representatives from sales, resources procurement, and production divisions. To achieve carbon neutrality while meeting new business targets, we must ultimately transition from fossil fuels such as coal to carbon-neutral fuels. The waste-to-energy boiler planned for FY2030, which is nearly technologically established and economically viable, will facilitate this transition from coal to waste-derived and biomass fuels. However, future transitions to new fuels such as hydrogen and ammonia present challenges such as high costs, supply issues, and uncertainties related to capital expenditures and government subsidies. These uncertainties make it difficult to formulate concrete concepts and plans at this time. To accelerate our carbon neutrality initiatives from FY2040 onwards, we have to accurately assess the technological and economic rationality of switching from fossil fuels to new fuels, taking into account future carbon pricing (carbon tax), and determining how to overcome related challenges. We will continue to deliberate carefully while researching the latest technological trends and working closely with the national and local governments as well as the Shikokuchuo City Carbon Neutrality Council.

Impact of carbon neutrality initiatives on management

We recognize that promoting carbon neutrality is an important initiative for Daio to enhance corporate value and promote sustainable growth in the future. This is especially true for our B2C products, centered on our domestic and overseas Home & Personal Care (H&PC) businesses, which we have positioned as a growth engine. Customers are showing increased interest in environmentally friendly products and the SDGs, resulting in a higher volume of inquiries and requests regarding the environmental friendliness of our products. We believe that by continuing to provide environmentally friendly products, we can gain the trust of our customers and encourage more customers to use our products, while at the same time unlocking new business opportunities. By becoming a company that consistently provides products that appeal to environmentally conscious customers, we can anticipate increased sales, enhanced brand value, and ultimately an improved reputation among our stakeholders. Based on this

belief, we are promoting carbon neutrality initiatives as an important management priority. On the other hand, promoting energy transition toward carbon neutrality at this time will increase energy costs and potentially impact business operations. While immediately viable alternatives to coal, such as LNG, can reduce fossil fuel-derived CO₂ and GHG emissions, they typically incur higher energy costs. Future promising fuels such as hydrogen and ammonia face cost and supply uncertainties. Adopting these alternative fuels will increase production costs, which cannot be fully absorbed through corporate efforts alone, potentially leading to a decline in competitiveness and necessitating price increases for products. The extent to which customers will accept price increases is unclear, raising concerns about their impact on sales and profits. If production volume decreases due to the shrinking paper and paperboard market, this will result in a reduction in fossil fuel-derived CO₂ and GHG emissions. However, energy is still required to drive new businesses that will replace paper and paperboard. To achieve energy transition while ensuring an adequate energy supply, it is necessary to establish new carbon-neutral energy sources both technologically and economically. This will require significant capital investment. Capital investment takes several years from decision-making to the start of equipment operation. We are working closely with all relevant parties to thoroughly and proactively investigate the supply and costs of new energy sources, the trends among competitors and energy-intensive industries in Japan, and future prospects and sustainability. Furthermore, we will examine government policies, subsidies and support, such as GX transition bonds, along with risks such as carbon taxes. By considering these factors carefully with a sense of urgency, we strive to make the best choices for our future.

Initiatives to reduce fossil fuel-derived CO₂ and GHG emissions aimed at coexistence with local communities

Achieving carbon neutrality requires concerted efforts across the entire supply chain and region. Therefore, we are dedicating our efforts to contributing to the reduction of fossil fuel-derived CO₂ and GHG emissions in our local community. For the waste-to-energy boiler scheduled to commence operation at the Mishima Mill in FY2030, we are collaborating with local governments to develop a scheme that solidifies and processes general waste, currently simply incinerated by municipalities, into fuel for the boiler. This scheme is expected to reduce fossil fuel-derived CO₂ and GHG emissions throughout the entire region. Under this scheme, we will employ the “in-vessel composting” method to solidify household waste. The method uses microbial biodegradation to reduce and dry the waste, forming it into fuel. This fuel will then be used in our waste-to-energy boiler, replacing coal. While this may increase our company’s GHG emissions due to the lower combustion efficiency of waste-derived fuel compared to coal, overall regional GHG emissions



will decrease as municipal incinerators reduce their waste burning. Additionally, our coal usage will be reduced. Moreover, the in-vessel composting method is more cost-effective than constructing new municipal incinerators, and it allows municipalities to sell waste as fuel. As a result, more municipalities with aging incinerators are considering this method when it is time to replace their incinerators. Given this context, we have set our GHG emissions reduction target for 2030 to be lower than our fossil fuel-derived CO₂ emissions reduction target. Nevertheless, we believe that this scheme will be highly valued by our stakeholders, as it contributes to reducing GHG emissions and coal consumption for the whole region, promoting coexistence with local communities.

Moreover, the Shikokuchuo City Carbon Neutrality Council in Shikokuchuo City, Ehime Prefecture, in which we serve as a managing company, is actively promoting various activities toward carbon neutrality. Currently, member companies convene to participate in study sessions where they share information on trends in national and local government policies, as well as technologies and equipment for carbon neutrality. Through these initiatives, we are fostering a sense of unity across the entire region, enabling us to collectively address challenges that are difficult for individual companies to solve independently, and to lobby national and local governments. By advancing these efforts, we aim to reduce the environmental impact and raise environmental awareness across the region, thereby contributing to the realization of a sustainable society.

Initiatives to address the 2024 logistics issue and reduce environmental impact

Along with energy transition, we are also working to address the

2024 logistics issue and reduce the environmental impact of logistics operations by promoting modal shift (shifting from land to sea transportation) and joint transportation partnerships. In joint transportation with the Suntory Group, we load our lightweight facial and toilet tissue products in the empty space above heavy cases containing beverages, significantly improving transportation efficiency and reducing cost and environmental impact. In addition, by relocating logistics bases and sharing relay points with joint transportation partners, we reduce both the driving distance and working hours of drivers, thereby lessening their burden and minimizing our environmental footprint. As other measures, we have introduced and begun test runs of double trailer trucks in the Shikoku region, and have started transportation tests using railway containers privately owned by Hokuetsu Corporation. Going forward, we plan to expand our use of marine transportation and further promote joint transportation. Through these measures, we will continue to strive to improve the working conditions for drivers, increase logistics efficiency and reduce our environmental impact.

Initiatives to address climate change risks and biodiversity

Our paper mills consume substantial energy and emit fossil fuel-derived CO₂ and GHGs, use forest resources as raw materials, and utilize significant amounts of water. After production, we discharge treated water, in compliance with the laws and regulations through 24-hour monitoring and management, into nearby rivers and the sea. These activities are essential for the ongoing operation of our mill and corporate activities, and we recognize the importance of managing our mills and conducting corporate activities with a keen awareness of climate change and nature-related risks. In

line with this belief, we have expressed our support for the Task Force on Climate-related Financial Disclosures (TCFD) recommendations, and assess climate-related risks and opportunities in line with the TCFD recommendations. Based on the assessment results, we have incorporated measures such as reducing fossil fuel-derived CO₂ and GHG emissions, and shifting to environmentally compliant products. Furthermore, we have integrated strategies to handle extreme weather events such as typhoons and torrential rains in our corporate activity and mill operation plans. On the nature-related front, we align with the Taskforce on Nature-related Financial Disclosures (TNFD), which has gained significant attention. At our Mishima Mill, we have implemented water conservation measures that allow continuous operations even with a 35% cut in water supply. In addition to intensifying our water conservation measures, we are dedicated to continually improving our wastewater treatment process to protect and preserve the surrounding ecosystem. This entails not only ensuring compliance with regulatory and voluntary standards, but also incorporating steps to remove foreign matter, such as fine vinyl debris, from wastewater. In response to the TCFD and TNFD recommendations, we evaluate various risks and opportunities, reflect them in our management strategies, and disclose required information. Our efforts aim to raise awareness among management and employees about climate- and nature-related risks, as well as our responses to those risks, thereby contributing to local environmental conservation and fulfilling our corporate social responsibility.

Toward achieving both carbon neutrality and sustainable management

In order to continue our corporate activities and mill

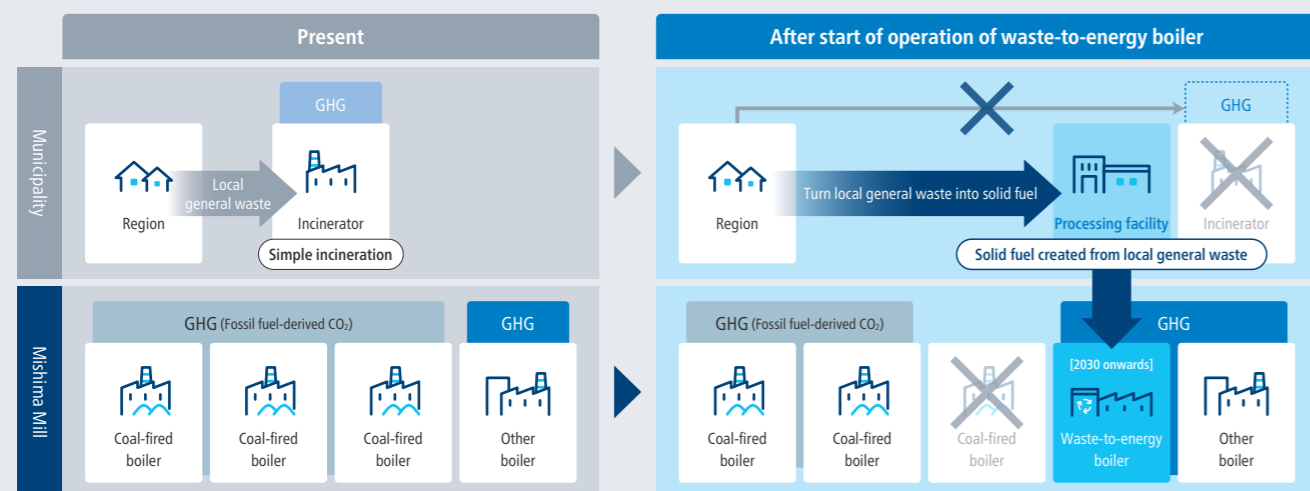
operations into the future and to enhance our corporate value in a sustainable manner, we must achieve carbon neutrality. We are advancing various initiatives with a strong determination.

First, we must meet our immediate goal of reducing fossil fuel-derived CO₂ and GHG emissions by introducing a waste-to-energy boiler in FY2030 under a scheme that works in collaboration with local communities. On top of that, we will do our utmost to win the support of our customers by continuing to deliver environmentally friendly, high-value-added products. Furthermore, in order to achieve carbon neutrality by FY2050, we need to steadily execute a medium- to long-term growth strategy for business segments, and promote the timely transformation of our business portfolio to enhance our corporate value. At the same time, we will transition to renewable energy sources. Through these efforts, we aim to achieve both carbon neutrality and sustainable management.

In order to resolve these difficult issues and achieve our goals, we encourage all employees to maintain a strong environmental awareness and practice energy conservation in their daily work. This includes promoting energy conservation as well as the development of environmentally compliant products. Additionally, we will deepen our collaboration with national and local governments, as well as local communities, particularly through the Shikokuchuo City Carbon Neutrality Council, so that we will be able to tackle issues that would be difficult to solve on our own. To stay ahead of future trends, we will actively gather and disseminate information, while making and implementing the best choices for our company. We kindly ask for the understanding and support of all our stakeholders.

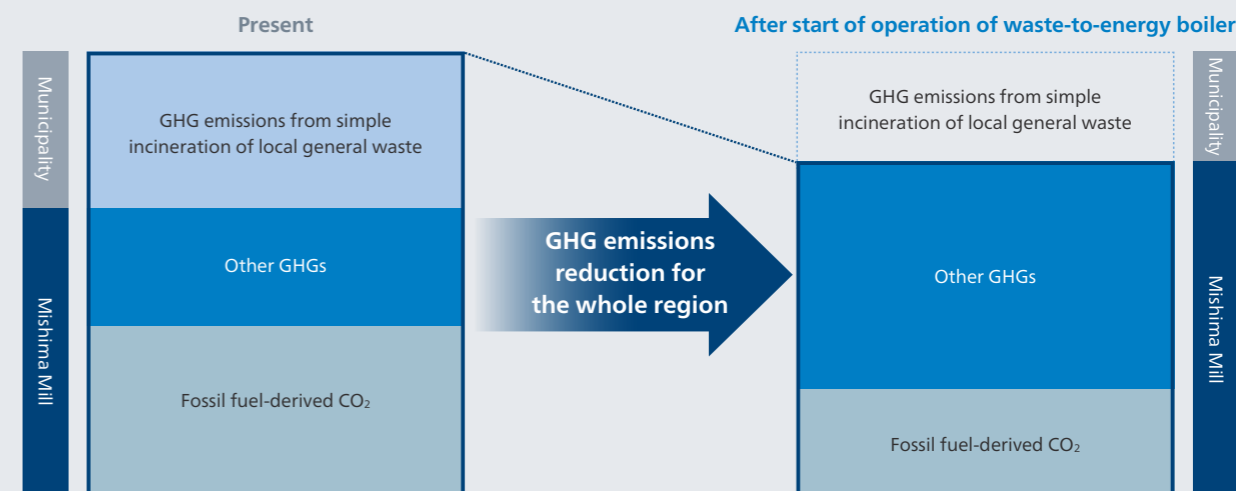
[Planned scheme diagram]

Introduce a waste-to-energy boiler in FY2030 to utilize local general waste as an alternative energy fuel to coal.



[Image after the introduction of the waste-to-energy boiler]

Aim to reduce GHG emissions not only for the Company but for the whole region.





Information Disclosure in Accordance with TCFD and TNFD Recommendations

The Daio Group has declared its support for the Task Force on Climate-related Financial Disclosures (TCFD) and the Taskforce on Nature-related Financial Disclosures (TNFD) and is promoting information disclosure in line with their recommendations.

▶ Response to the TCFD Recommendations <https://www.daio-paper.co.jp/en/csr/organic/tcfdf/>
 ▶ Response to the TNFD Recommendations <https://www.daio-paper.co.jp/en/csr/organic/tnfd/>

Governance

Common to the TCFD and TNFD Recommendations In May 2021, Daio Paper's Board of Directors formulated the Daio Group Sustainability Vision, the Group's sustainability strategy. In conjunction with that, the Sustainability Committee meets once every quarter to assess climate- and nature-related risks and opportunities, set targets, policies, and strategies, and monitor the progress of the Group's relevant initiatives.

TCFD Specific initiatives related to climate-related risks and opportunities are devised and promoted by five working groups under the ESG Subcommittee: the Global Warming Countermeasures WG, the TCFD Response WG, the Logistics GHG Emissions Reduction WG, the Forests & Biodiversity Response WG, and the Value Co-Creation WG. The ESG Subcommittee is in charge of monitoring those initiatives. The Daio Group has identified response to climate change as one of its material issues, placing a particular focus on decarbonization. The promotion of the full phasing-out of coal, in particular, is overseen by the Managing Executive Officer and Director responsible for the Production Unit, and the relevant initiatives are also reported and monitored at the Production Meetings and the Medium-Term Business Plan Implementation Meetings, which are attended by Directors and Executive Officers.

The Sustainability Committee (chaired by the President and Representative Director) makes relevant decisions, which are reported once a quarter to the Board of Directors so that the Board oversees the implementation and progress of the Group's climate- and nature-related initiatives and makes important decisions. Under the Sustainability Committee is the ESG Subcommittee, which comprises eight working groups (WGs).

TNFD The Group's specific initiatives to address nature-related risks and opportunities are devised and promoted by the Forests & Biodiversity Response WG and monitored by the ESG Subcommittee. In addition, the Daio Group has formulated the Daio Group Human Rights Policy in accordance with the United Nations' Guiding Principles on Business and Human Rights and respects the human rights of all its stakeholders, including indigenous peoples and local communities. With respect for human rights and coexistence with local communities identified as material issues, we are working to identify, prevent, and mitigate any negative impacts on human rights, while engaging actively with local communities.

Strategy

TCFD The Daio Group conducted a scenario analysis for the medium term (until 2030) and long term (until 2050) based on a 1.5°C scenario and a 4°C scenario to determine how climate change would impact its Paper and Paperboard Business and Home & Personal Care ("H&PC") Business. The scenario analysis was aimed at identifying and assessing climate-related risks as part of our efforts to formulate appropriate strategies. We started that process by comprehensively identifying all possible climate-related drivers (risks and opportunities) in the following three categories: 1) Transition risks (a. Policies and regulations, b. Market, c. Reputation, d. Technologies), 2) Physical risks (a. Acute, b. Chronic), and 3) Opportunities (a. Energy source, b. Market, c. Resilience, d. Products and services, e. Resource efficiency). Then, from among these, we sorted out and organized items that would have a financial impact on us. To assess the scope of impacts of those items and the levels of their uncertainty and to examine the scale of their qualitative and quantitative financial impacts, we determined transition risks in reference to such scenarios as the SSP1-1.9 and SSP5-8.5 scenarios in the Sixth Assessment Report of the Intergovernmental Panel on Climate Change (IPCC), and the NZE and the STEPS in the World Energy Outlook 2023 of the International Energy Agency (IEA). Meanwhile, we assessed physical risks based on the calculation logic of Cross Dependency Initiative (XDI), a provider of scenario analysis introduced in TCFD guidance and other documents. In the table showing the results of the scenario analysis on pages 75 and 76, the financial impacts of risks and opportunities are indicated according to their scale in the following categories: "Large" for an impact of more than 15 billion yen, "Medium" for an impact of 5 to 15 billion yen, and "Small" for an impact of less than 5 billion yen, as well as "-" for an impact under analysis. Scenario analysis >> pp.75-76

TNFD We analyzed the direct operations of the Paper and Paperboard Business and H&PC Business, our core businesses, using the LEAP approach^{*1} and identified nature-related risks and opportunities based on the results of our assessment of dependencies and impacts on nature. We started formulating our nature-related strategies by analyzing the relationship that our business has with ecosystem services and natural capital from the perspective of potential dependencies and impacts. In that process, we used ENCORE, an analytical tool recommended by the TNFD. Afterward, according to their importance in our business, we selected our two main mills in Japan (Mishima and Kani Mills) and 212 pieces of forest land owned by Forestal Anchile in Chile to examine whether they constituted any of the two kinds of priority locations: sensitive locations (areas deemed to be ecologically sensitive in terms of natural capital and biodiversity) and material locations (areas where we have identified material nature-related dependencies, impacts, risks and opportunities). The examination showed that the two domestic mills and some parts of the Chilean forest land were located in or near Key Biodiversity Areas (KBAs), nature reserves, etc. and therefore constituted sensitive locations. In addition, in consideration of the results of our analysis of dependencies and impacts, as well as the resulting risks and opportunities, we determined that all parts of forest land owned by the Chilean Daio Group company constituted material locations. Based on the results of the assessment of our dependencies and impacts on nature, we have identified nature-related risks and opportunities that the Daio Group needs to address and defined our action for nature in line with the AR3T Framework,^{*2} a framework for organizational action for nature. LEAP approach >> p.79

Risk Management

Common to the TCFD and TNFD Recommendations At the Daio Group, the Sustainability Committee takes charge of the comprehensive management of all sustainability-related issues, including those related to climate change and nature. The ESG Subcommittee, a subordinate body of the committee, assesses climate- and nature-related risks and opportunities identified by five of its working groups (WGs): the Global Warming Countermeasures WG, the TCFD Response WG, the Logistics GHG Emissions Reduction WG, the Forests & Biodiversity Response WG, and the Value Co-Creation WG. The Sustainability Committee then deliberates on matters related to those risks and opportunities. The outcomes of the

deliberations are reported to the Board of Directors once a quarter to be integrated into the management of the Group. The Risk and Compliance Committee deliberates on matters regarding the identification and assessment of risks with likely significant impacts on the Group's management, including those of compliance violations and misconduct, and the deliberation results are reported regularly to the Board of Directors and integrated into the management of the Group. The identified risk and opportunities, including information on the comprehensive assessment and planned responses, are also shared among their secretariats, namely the Sustainability Promotion Department and the General Affairs Department, and managed holistically.

Metrics and Targets

TCFD In conjunction with the Daio Group Sustainability Vision, we have set a goal of achieving carbon neutrality by FY2050 as our long-term vision for action against global warming. As a milestone goal, we have also set a target of reducing Scope 1 and 2 CO₂ emissions from fossil fuel combustion by 46% and GHG emissions by 20% (from the 2013 levels) by FY2030. Our Roadmap to Achieving Carbon Neutrality presents our target of phasing out our use of coal through step-by-step shutdowns of all three coal-fired boilers at the Mishima Mill, our core mill, by FY2050: at least one boiler by FY2030, the second boiler by FY2040, and the third boiler by FY2050. Driven by our latest TCFD scenario analysis and the current conditions of the raw material and fuel markets, we have been striving to shut down the coal-fired boilers earlier than these target dates. In FY2023, we completed the shift from selling power generated through biomass boilers under the feed-in-tariff (FIT) scheme to consuming it in-house and the shutdown of the N3 paper machine. We are also working on the development of black pellets as a substitute for coal and their co-combustion with coal, to achieve the shutdown of at least one coal-fired boiler by FY2030. Internally, we will carry out a fuel transition to renewable energy and low-carbon fuels (such as LNG) and undertake further energy-saving measures. We will also contribute to reducing GHG emissions from the entire local community by using locally-generated waste to fuel our waste-to-energy boiler for thermal recycling. Furthermore, we are working to expand the area of our forested land. By combining our CO₂ emissions reduction efforts with our carbon absorption and fixation approaches in an optimal balance, we will ultimately achieve carbon neutrality by FY2050. In FY2023, we calculated Scope 3 GHG emissions generated by the entire Daio Group, including its overseas bases. Among the Scope 3 emissions, we aim to reduce Category 1 and 4 emissions from our facilities in Japan by 15% from the FY2022 levels.

Initiatives toward a Carbon-free Society >> pp.67-72

TNFD In line with TNFD Recommendations Version 1.0, the Daio Group discloses its values for core global metrics on its website. We will continue our efforts to expand the range of metrics in our disclosures and reduce the impact of our operations on nature. We have also set nature-related targets as shown on the right. We will consider setting many more targets with a view to contributing to nature-positive outcomes.

[Nature-related targets]

Material issue	Metric	FY2030 target
Establishment of sustainable supply chain	Percentage of forest certificates maintained in our forestry business and paper production in Japan and abroad	100%
Response to climate change	Reduction in fossil fuel-generated CO ₂ emissions (compared to FY2013)	46%
	Reduction in the energy intensity	1% reduction per year
Realization of a recycling-oriented society	Content of pulp derived from hard-to-recycle recovered paper in containerboard manufactured at the Mishima Mill, our core paper mill, which is aimed at promoting the use of this kind of recovered paper	30%
	Percentage of waste recycled	100%
Forest conservation and maintenance of biodiversity	Reductions in the water and wastewater COD intensities per unit sales (compared to previous fiscal year)	1% reduction per year
	Area of natural forests preserved	Preserving approximately 280 km ² of natural forests
	Increase in the forested area	Increase of 150 km ² (by FY2050)

*1 An approach advocated by the TNFD that is designed for an organization to locate its interface with nature (L), evaluate its dependencies and impacts on nature (E), assess its nature-related risks and opportunities (A), and prepare to respond to, and report on, material nature-related issues (P).
 *2 Framework for an organization's action for nature, which is aimed at achieving a nature-positive future by avoiding and reducing the pressure on nature loss, working on restoring and regenerating nature, and transforming underlying systems at the organization or in society



TCFD scenario analysis

Transition risks

We recognize that the transition risks that we would face in the 1.5°C scenario include legal and regulatory risks, such as carbon taxes, the risk of an increase in raw material and fuel prices, and market and reputational risks due to responses regarding information on the carbon footprint of products (CFP), despite differences in the carbon pricing systems adopted in the countries where our manufacturing bases are operating. We have determined that the majority of our energy-related risks are related to the Paper and Paperboard Business. However, we will also take actions in the domestic and overseas H&PC Business and make Group-wide efforts to achieve our reduction targets for FY2030 (reducing fossil fuel-generated CO₂ emissions by 46% and GHG emissions by 20% from the FY2013 levels by FY2030) and stepping further, to achieve carbon neutrality by FY2050. As our first step in the transition phase toward carbon neutrality, in FY2030, we will replace one of the coal-fired boilers at the Mishima Mill with a waste-to-energy boiler and start utilizing locally generated waste as an alternative fuel. Through this initiative, we will proactively promote GHG emissions reduction not only within the Company but also throughout the local community. Furthermore, we have analyzed the possible maximum risks to our supply chain of raw materials while taking into account expected fluctuations in the volume of raw materials due to future changes in market conditions. We will work to establish a low-carbon supply chain of raw materials, particularly in logistics activities, aiming to reduce supply chain-related risks, including Scope 3 emissions.

Physical risks

To assess physical risks, we have conducted a scenario analysis based on the calculation logic of Cross Dependency Initiative (XDI), a provider of scenario analysis introduced in TCFD guidance and other documents. Specifically, we assessed the risks of operational suspension involving losses and physical property damage due to eight kinds of natural disasters—river flooding, high tides, heat waves, forest fires, windstorms, land subsidence, freezing and thawing, and inland flooding—at the Daio Group’s 11 production and logistics bases in Japan. Generally, such risks are considered "high" when the likelihood of realization exceeds 1%. Meanwhile, our assessments for both 2030 and 2050 indicate "low" risks, with realization probabilities below 0.2%, and minor financial impact of less than 500 million yen. Although the expected impact is small, we will work to enhance our business continuity planning (BCP) and business continuity management (BCM), including for logistics, toward risk reduction. Furthermore, we recognize that as time lapses to 2030 and 2050, the number of wildfires and other hazards will increase in some overseas countries due to the effects of climate change. We will implement measures to secure sufficient quantities of forest resources, including diversifying procurement sources and promoting tree planting, as well as selecting, breeding and developing tree species suitable for the region and climate.

Opportunities

In the 1.5°C scenario, climate-related risks can also be seen as opportunities. We will promote the development and launch of products that are environmentally conscious or help consumers adapt to climate change as part of our efforts to achieve the Three Well-beings (Hygiene, Life, and Regeneration), thereby realizing our philosophy of “Shaping an Abundant and Affable Future for the World.” In FY2023, the H&PC Business worked to reduce its use of plastic by switching to paper packaging for products and develop products with a lower environmental impact. The Paper and Paperboard Business made efforts to market their products as those that could contribute to a plastic-free or low-plastic society. We will also implement initiatives related to cellulose nanofiber (CNF), a new material. Specifically, in FY2025, we will put into operation a commercial plant for CNF composite resin, which contributes to more lightweight and stronger products, to promote its more widespread use. We will also begin to develop biorefining technologies utilizing materials in the papermaking industry, while working to significantly reduce the environmental impact of product lifecycle throughout society. As shown on pages 51 and 52, we are committed to expanding these initiatives as new businesses.

Financial impacts of risks and opportunities

Large: More than 15 billion yen
 Medium: 5 billion yen to 15 billion yen
 Small: Less than 5 billion yen
 -: Under analysis

[1.5°C scenario]

Risks	Description of implications	1.5°C by 2030	1.5°C by 2050	Strategies and actions
Policies and regulations	New scheme for mandatory CO ₂ emissions reduction	Large	Medium	<ul style="list-style-type: none"> Adopt renewable energy sources such as solar energy Switch from fossil fuels to waste-based fuels by replacing a coal-fired boiler with a waste-to-energy one by FY2030 Introduce and continue to invest in energy conservation technologies Achieve fuel transition to LNG Promote initiatives such as those through the Shikokuchuo City Carbon Neutrality Council Use black pellets in waste-to-energy boilers and coal-fired boilers Introduce technologies for combustion of low-carbon fuels (such as hydrogen, ammonia, and synthetic fuel) Promote the carbon capture, utilization and storage (CCUS) initiative of the Shikokuchuo City Carbon Neutrality Council and other bodies Expand the area of forest plantations
	Tightening of regulations on GHG emissions			
Market and regulation	Rise in carbon pricing	Medium	Large	<ul style="list-style-type: none"> Choose low-GHG-emitting materials from the first stage of product development to curb cost increases
	Shift to environmentally friendly products			
Technology	Transition to low-carbon energy in product logistics	Small	Small	<ul style="list-style-type: none"> Promote the modal shift from trucks to coastal vessels and roll-on/roll-off ships, the reduction of transportation distances, the use of double-trailer trucks, etc. Adopt new technologies in line with future advances in autonomous vehicles, hydrogen or synthetic fuel-powered trucks, etc.

[4°C scenario]

Risks	Description of implications	4°C by 2030	4°C by 2050	Strategies and actions
Acute	Increased frequency of typhoons and torrential rains	Small	Small	<ul style="list-style-type: none"> Promote BCP and BCM measures
Chronic	Changes in precipitation and weather patterns and a chronic increase in average temperature	Small	Small	<ul style="list-style-type: none"> Diversify suppliers for stable procurement Promote tree planting to secure sufficient quantities of raw materials Select, breed and develop tree species suitable for the region and climate of each plantation area

[1.5°C scenario]

Opportunities	Description of implications	1.5°C by 2030	1.5°C by 2050	Strategies and actions
Products and services	Changes in consumer needs	Small	Medium	<ul style="list-style-type: none"> H&PC Unit <ul style="list-style-type: none"> Switch to low-plastic packaging materials Broaden the lineup of products that help consumers adapt to climate change, such as masks and hygiene products Develop sweat control products and anti-heat stroke products and expand their sales Develop products that help in water conservation, including easily flushable products Paper & Paperboard Unit <ul style="list-style-type: none"> Broaden the lineup of plastic-replacing products and packaging materials Broaden the lineup of products certified by FSC and other bodies Development of advanced materials <ul style="list-style-type: none"> Promote the development of CNF-based materials, mainly composite resin, and radio frequency identifiers (RFID) and broaden the lineup Develop biomass chemical products and materials through the biorefinery business using papermaking materials and expand their sales
	Development of new products and services through technological innovation			
Resource efficiency	Effective use of waste and surplus resources	-	-	<ul style="list-style-type: none"> Promote the development of CNF-based materials, mainly composite resin, and radio frequency identifiers (RFID) and broaden the lineup Develop biomass chemical products and materials through the biorefinery business using papermaking materials and expand their sales
	Recycling of raw materials			
	Reuse of materials			<ul style="list-style-type: none"> Establish a system for collecting and recycling used disposable diapers Install equipment for reusing materials Launch environmentally conscious products

Examples of initiatives

H&PC Business

Against a backdrop of growing public awareness of ethical consumption, that is, the practice of purchasing products that are friendly to the global environment, people, and society, the H&PC Unit is working to reduce the amount of plastic used in product packaging and to recycle materials. In response to the Plastic Resource Circulation Act, we are working, as shown by the examples below, to switch to paper packaging and develop environmentally friendly products with the goal of reducing the intensity of plastic waste from H&PC products by 10% or more by FY2025 from the FY2020 level.

[Switch to paper product packaging]

Adopted environmentally friendly paper packaging



Kirekira! Toilet Cleaning Wipes

[Material recycling]

Collected film waste generated from the process of manufacturing elleair products and reused it to produce product bags



• elis Shin Suhadakan
 • elleair i:na Soft Pack Tissue

Paper and Paperboard Business

In addition to promoting efforts toward a plastic-free or low-plastic society by expanding sales of the elipla Series, which was launched in February 2022, we are expanding the lineup of our paper products with new functions. In FY2023, we added to the elipla Series nine new product varieties, including the FS Elipla Moisture-proof products (linerboard and unbleached kraft paper) and the elipla Premier Series, resulting in a total of 19 products. In FY2023, the elipla Series products were adopted as materials for food and snack packaging, containers, etc. for at least seven new products.* Additionally, to accelerate the development of products that are friendly to the global environment, people, and society, the Paper and Paperboard Unit is cooperating with the H&PC Unit in switching to paper and low-plastic packaging for Daio products. In FY2023, we changed the band of elleair Prowipe to paper. To date, we have changed packaging materials for Kirekira! Toilet Cleaning Wipes, ellever Paper Towels, the elis Suhadanokimochi Natural Series, and other products to plastic-free or low-plastic ones. In addition, we are promoting more widespread use of the Rems system, which we began to propose in October 2022 as a system for upcycling waste from companies’ manufacturing processes as raw materials for paper, with the aim of contributing to waste reduction.

* Number of products whose adoption of the elipla Series we are currently aware of

[Switch to low-plastic product packaging]



Switched from polyethylene-laminated paper to heat seal paper
 elleair Prowipe Unbleached Soft Towel: 50-sheet bundle

[Waste reduction initiatives]



“Rems Standard-FS,” which effectively uses rice husks as a raw material for paper
 Used for ARTNATURE INC.’s direct mail postcards (from March 2024)

Development of advanced materials

To realize a carbon-free society, the Daio Group is committed to developing applications of CNF, a new wood-derived material. In FY2025, we will put into operation a commercial plant for the ELLEX-R67, a CNF composite resin, aiming to further expand our business.

GHG emissions reduction in the logistics sector

We are making efforts to visualize and reduce Scope 3 GHG emissions.

Initiatives to Reduce Scope 3 Emissions >>> pp.77-78

Energy transition toward carbon neutrality

We are currently working to devise and implement measures to achieve carbon neutrality by FY2050 in line with the roadmap we have drawn.

Initiatives toward a Carbon-free Society >>> pp.67-72

Creation of new businesses (Application development of cellulose nanofibers) >>> p.51



Initiatives to Reduce Scope 3 Emissions

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

Scope 3 Reduction target for Category 1 & 4 emissions in Japan: 15% reduction each (from the FY2022 level)

(Unit: thousand t CO₂)

Emissions throughout the supply chain		FY2022	FY2023		Target range
			In Japan	Overseas	
Scope 1	Direct emissions	3,491	3,153		Daio Group
Scope 2	Indirect emissions	667	428		Daio Group
Scope 3	Other emissions	2,297	2,372		
Category 1	Purchased Goods and Services	1,321	1,220	296	FY2022: Domestic production companies FY2023: Daio Group
Category 2	Capital Goods	124	80		Daio Group
Category 3	Fuel- and Energy-Related Activities Not Included in Scope 1 or Scope 2	123	95		Daio Group
Category 4	Upstream Transportation and Distribution	408	309	38	FY2022: Domestic production companies FY2023: Daio Group
Category 5	Waste Generated in Operations	27	22		Daio Group
Category 6	Business Travel	2	2		Daio Group
Category 7	Employee Commuting	6	6		Daio Group
Category 8	Upstream Leased Assets	Not applicable	Not applicable		
Category 9	Downstream Transportation and Distribution	109	117	13	* The transportation of master rolls of paper between Daio Paper and its affiliated companies is included in Category 9.
Category 10	Processing of Sold Products	—	—		
Category 11	Use of Sold Products	—	—		
Category 12	End-of-Life Treatment of Sold Products	178	175		
Category 13	Downstream Leased Assets	Not applicable	Not applicable		
Category 14	Franchises	Not applicable	Not applicable		
Category 15	Investments	Not applicable	Not applicable		

Initiatives to reduce Scope 3 GHG emissions in the logistics sector

In the logistics sector, the Daio Group is making Group-wide efforts to promote the construction of an environmentally friendly transportation network. Specifically, in Japan, we are making a more active commitment than ever before to a modal shift from trucks to coastal vessels and roll-on/roll-off ships. In China as well, we launched a new modal-shift initiative at Elleair International China (Nantong) Co., Ltd. (EICN) in FY2023. We are also expanding the scope of our efforts beyond product transportation to include the logistics of raw materials, fuels, and other supplies. We will continue to explore transportation modes that can contribute to environmental conservation.

EICN's modal shift to coastal vessels

EICN delivers its products from its factory in Nantong, Jiangsu Province, to customers all over China. The longest transportation distance amounts to 2,370 km (to Kunming, Yunnan Province). As part of its efforts toward GHG emissions reduction in the future, EICN began to use coastal vessels on a trial basis for transportation to two cities with high demand, Guangzhou in Guangdong Province and Tianjin in June and September 2023, respectively. The trial resulted in an annual GHG emissions reduction of approximately 13 t CO₂. We will continue to consider using this transportation mode with increased frequency in these areas and utilizing the Yangtze River for inland waterway transportation.



Photo: Courtesy of Nantong Sinavico International Logistics Co., Ltd.

Modal shift in transportation of recovered paper



Recovered paper being loaded at Hakata Port

The "2024 logistics problem" in Japan, stemming from new overtime regulations for truck drivers, is expected to hinder our ability to transport recovered paper over long distances. Specifically, routes exceeding 400 km, such as from Kyushu region to the Mishima Mill, may become unfeasible. To address this risk, since January 2024, we have been conducting a modal shift trial in the delivery of some portion of recovered paper. In this trial, trucks hired by recovered paper suppliers have been replaced with coastal vessels from Hakata Port to the Mishima Mill. By the end of March 2024, the trial has contributed to a GHG emissions reduction of approximately 30.5 t CO₂. Going forward, we will work to reduce GHG emissions not only in product transportation but also in the upstream logistics of raw materials, fuels, and other supplies in the supply chain.

Fluff pulp transportation by coastal vessel

In July 2023, the Mishima Mill began to produce fluff pulp, one of the main materials for absorbent products (such as disposable diapers). To transport the fluff pulp from the Mishima Mill to Elleair Product's Fukushima and Tochigi Factories, we started using coastal vessels. The fluff pulp is loaded on board together with rolls of heavier products so that it can be transported by coastal vessel. By the end of March 2024, this initiative has resulted in a GHG emissions reduction of approximately 166 t CO₂ compared to truck transportation. In FY2024, we will also begin to use coastal vessels for fluff pulp transportation to Elleair Products' Shizuoka Factory, aiming to further reduce our GHG emissions.



Fluff pulp loaded on a coastal vessel



Analysis using the TNFD LEAP approach: Nature-related risks and opportunities

Category		Overview	Daio Group's Major Initiatives
Risks	Physical risks	<ul style="list-style-type: none"> Decreases in wood production, paper production, and sales due to water pollution or shortages Decline in tree growth due to deteriorated soil ecosystems Decrease in wood production due to the increased frequency of forest fires and pest damage caused by climate change Increase in insurance premiums and forest management costs due to the increased frequency of forest fires 	<ul style="list-style-type: none"> Stabilize procurement by diversifying suppliers and promote BCP/BCM measures Increase engagement with indigenous peoples and local regulatory authorities Conduct and enhance firefighting and disaster preparedness activities in cooperation with local companies and people <p>Example: Environmental conservation activities of Forestal Anchile >>> p.80</p>
	Policy	<ul style="list-style-type: none"> Increase in the cost of responding to growing demand for sustainable forest management, including restrictions of forest clear-cutting and a shift to mixed forests Decrease in wood production due to an increasingly limited area of land available for tree plantations caused by the expansion of nature reserves Increase in production costs due to the introduction of a carbon tax Cost of complying with stricter regulations on environmentally hazardous substances Decline in tree planting productivity due to restrictions on the planting of eucalyptus, which is an invasive alien species in Chile 	<p>(Partly the same as above)</p> <ul style="list-style-type: none"> Increase the productivity and added value of tree planting by developing the Group's proprietary technologies Shift to biomass fuel, promote energy-saving initiatives, and improve energy efficiency Promote water-efficient technologies and water recycling <p>Example: Efforts for effective use of water at the Mishima Mill >>> p.66 Initiatives toward a Carbon-free Society >>> pp.67-72</p>
	Market	<ul style="list-style-type: none"> Increase in costs due to soaring wood chip prices caused by growing demand for wood products driven by trends toward decarbonization Decrease in sales of products without forest certification due to growing demand for environmentally friendly products Increase in the prices of certified materials and the cost of verifying the authenticity of certification due to the growing requirement to procure such materials Decline in demand for paper due to more widespread use of alternative materials that are considered to have a lower environmental impact than paper 	<p>(Partly the same as above)</p> <ul style="list-style-type: none"> Stabilize wood procurement by diversifying suppliers to include those dealing in wood with forest certification Expand the use of materials with a low environmental impact, such as paper containing recovered pulp and FSC-certified paper
	Technology	<ul style="list-style-type: none"> Cost of developing or in-licensing technologies for increasing tree planting productivity Cost of introducing equipment with a low impact on the air, water, and/or soil 	
	Reputational	<ul style="list-style-type: none"> Potential decline in reputation and sales due to failure to effectively share the Group's commitment to the natural environment with the public Declined reputation and the costs of covering liabilities for damages and of recovery, due to emissions of environmentally hazardous substances Damage to corporate value and loss of business opportunities due to forest destruction or human rights infringement 	<p>(Partly the same as above)</p> <ul style="list-style-type: none"> Increase stakeholder engagement
	Liability	<ul style="list-style-type: none"> Lawsuit against us and the need to cover liabilities for damages due to waste, water use, soil pollution, or land alteration 	<ul style="list-style-type: none"> Conduct environmental assessments and thoroughly comply with laws and regulations
Opportunities	Market	<ul style="list-style-type: none"> Increase in sales due to growing demand for wood-based or certified products as alternatives to plastics Increase in opportunities to sell products using woody materials other than paper (sustainable aviation fuel [SAF] and biomaterials) 	<ul style="list-style-type: none"> Develop and expand technologies for a plastic-free or low-plastic society Develop and expand advanced biomass-based materials <p>Example: Application development of cellulose nanofibers >>>p.51 Biorefinery >>>p.52 Expansion of the elipla Series https://www.daio-paper.co.jp/en/csr/dedicated/environment/</p>
	Products and services	<ul style="list-style-type: none"> Increase in sales of cellulose nanofiber-related products, fuel pellets, and products with plastic-replacing features Provision of environmentally friendly, high-value-added products 	<ul style="list-style-type: none"> Utilize tree planting technologies to improve agricultural productivity Develop water-efficient products
	Resource efficiency	<ul style="list-style-type: none"> Reduction of production costs through efficient water use in the plantation business and paper manufacturing Sale of residual and other wastes as biomass fuel or pellet products or their in-house use as fuel Reduction of the cost of procuring virgin wood from abroad through promotion of recycling of recovered paper and other wastes in Japan Reduction of production-related fuel costs through biomass power generation using black liquor or other wastes 	<ul style="list-style-type: none"> Promote water-efficient technologies and water recycling activities Use waste fuel effectively <p>Example: Efforts for effective use of water at the Mishima Mill >>>p.66 Initiatives toward a Carbon-free Society >>>pp.67-72</p>
	Reputational capital	<ul style="list-style-type: none"> Improvement of reputation among stakeholders through establishment of water infrastructure in Chile Improvement of reputation among investors and customers through initiatives to conserve the natural environment and appropriate disclosures Achievement of a high rating as a company engaged in the plantation business due to public trends toward highly re-valuing the various functions of forests 	<ul style="list-style-type: none"> Increase stakeholder engagement Implement nature-positive initiatives
	Capital flow and financing	<ul style="list-style-type: none"> Acquisition of access to sustainable finance through promotion of natural-environment-conscious management Acquisition of new financing means through receipt of monetary incentives for natural conservation areas with OECM ("other effective area-based conservation measures") certification or the like Easier access to financing using forests as collateral due to increased economic value of forests 	
	Sustainable use of natural resources	<ul style="list-style-type: none"> Sustainable water use through appropriate forest management and the resulting conservation of water sources Ensuring of a long-term supply of resources and prevention of resource depletion through appropriate forest management and acquisition of certification Reuse of plastic waste, used chemicals, fuel combustion ashes from boilers, etc. Utilization of high-productivity plantation management techniques and commercial distribution of high-yield seedling varieties to maximize plantation productivity, thereby reducing pressure to convert natural forests into plantations 	<ul style="list-style-type: none"> Achieve a high utilization rate for recovered paper Build a system for recycling disposable diapers Implement nature-positive initiatives (such as registering Daio Group business sites as OECMs) <p>Example: Promotion of use of hard-to-recycle recovered paper >>>p.66</p>
Ecosystem protection, restoration and regeneration	<ul style="list-style-type: none"> Maintenance of ecosystems and restoration of their functions through appropriate forest management and the protection of rare species Prevention of landslides through appropriate forest management Contribution to achieving carbon neutrality through the forestry business, where trees absorb CO₂ Provision of sustainable tourism and monitoring programs through the protection of rare species and collaboration with academic institutions and environmental conservation organizations 	<p>(Partly the same as above)</p> <ul style="list-style-type: none"> Protect (maintain and expand) natural forests Survey, monitor, and protect flora and fauna Develop climate change-adaptable species (tree species with high CO₂ fixation capacity) <p>Example: Environmental conservation activities of Forestal Anchile >>>p.80</p>	



Material issue: Forest conservation and maintenance of biodiversity

The Daio Group is committed to conserving forests and maintaining biodiversity based on the Daio Global Environmental Charter.

Environmental conservation activities of Forestal Anchile

To protect forests, which are important assets, from fires, Forestal Anchile, a Daio Group company, cooperates with local companies and people in firefighting and disaster preparedness activities. Together with Forestal Arauco SA and Hancock Chilean Plantations SpA, forestry companies operating in the same area, the company is running the organizations listed below.

Forest conservation

Sociedad de Protección del Sur (a joint fire prevention team)

The three companies jointly manage and use resources necessary for firefighting and disaster preparedness, including fire detection cameras, water-spraying helicopters and other firefighting equipment, as well as firefighters.

Vivamos el Bosque (an environmental education group)

This group conducts educational and awareness-raising activities for local people with the aim of facilitating their understanding of forestry companies and preventing fires. Since forest fires are caused not only spontaneously but also by human factors, such as careless handling of fire and arson, cooperation from the local community is essential. Education provided to local people covers a wide range of topics, ranging from fire management and forest conservation to seedling cultivation and plantation business practices. The key to minimizing fire damage is a monitoring system. Since Sociedad de Protección del Sur cannot achieve the required level of monitoring with its facilities and human resources alone, the team is working to strengthen the monitoring system. Specifically, it supports the local people by providing them with education while collecting information from them about where fires are likely to occur and other matters.

Maintenance of biodiversity

Forestal Anchile has designated natural forests and areas inhabited by endangered species within its plantation business sites as areas of high conservation value and conducts periodical monitoring surveys on them. The company collaborates with Chile's National Forest Corporation, local NGOs, specialist organizations, and universities in conducting the surveys.

- ▶ Daio Global Environmental Charter <https://www.daio-paper.co.jp/en/csr/organic/charter/>
- ▶ Policy on Forest Management https://www.daio-paper.co.jp/wp-content/uploads/20230725_shinrinkeiei.pdf

[Rare species monitoring surveys conducted in due consideration of the natural environment of the surveyed business sites]

Monitoring targets	Surveyed area	Details of monitoring	Frequency
Protection of evergreen plant species, such as the <i>alerce</i> (Patagonian cypress), <i>alcanforero</i> (camphor tree), and <i>coihue</i> (Dombey's southern beech), and protection of water sources for the indigenous peoples	5,012 ha	Removing livestock and waste that could affect the ecosystems, monitoring illegal logging and other human activities, and having specialists conduct ecological impact assessment before and after monitoring survey Monitoring the state of tree growth by observing buds growing from naturally fallen seeds, sprouts from tree stumps, etc. and removing invasive species	Once a month Once a year
Protection of animal species, such as the <i>huillín</i> (Southern river otter), <i>cisne de cuello negro</i> (black-necked swan), and <i>garza</i> (heron)	583 ha	Removing livestock and waste that could affect the ecosystems and monitoring illegal logging and other human activities Monitoring and checking the status of the ecosystems Distributing a list of protected plant and animal species with photos to people living near the forests and forest management contractors and requesting that, if they see any of those plants and animals, they contact the monitoring team and protect the plant or animal	Once a month Once or twice a year Constant

[Results of a previous survey and responses to the results]

Year	Results	Responses
2018	Discovered <i>alerce</i> trees in protected forests	As a condition for logging operation approval, Chile's National Forest Corporation requires distribution surveys of <i>alerce</i> (Patagonian cypress), <i>ciprés de las guaitecas</i> (Guaitecas cypress), and <i>musgo de turbera</i> (Magellan's peatmoss). We conducted investigations in our natural and protected forests where <i>alerce</i> trees were likely to inhabit, to assess its habitat and population. As of 2024, we are planning to construct three types of protective fences.



* Our initiatives in this field focus on Target 6 of Goal 6, Target 1 of Goal 13, Targets 1, 2, 4 and 5 of Goal 15, Targets 16 and 17 of Goal 17.

Compliance and Governance



Material issue: Fair and highly transparent management

Code of Conduct

In October 2022, we drastically revised the Daio Group Code of Conduct so that it would guide all officers and employees of Daio Group companies, both in Japan and abroad, to perform their duties sincerely and appropriately according to high ethical standards with a view to fulfilling the Group's Management Philosophy "Shaping an abundant and affable future for the world." The Daio Group Code of Conduct comprises 15 items, including "Bribery prevention" and "Promotion of respect for human rights and promotion of diversity and inclusion." We are committed to spreading full awareness of the Code of Conduct throughout the Group by not only providing officers and employees, including those at overseas subsidiaries, with regular education and training, but also translating it into local languages (English, Chinese, Thai, Turkish, Portuguese, etc.), distributing "credo cards" and pamphlets, opening a Code of Conduct website designed especially for smartphones, and publishing it in the Group newsletter.



https://www.daio-paper.co.jp/wp-content/uploads/20221003_eng.pdf

Compliance promotion structure

Daio Paper has not only formulated internal rules to promote risk management and compliance but also established a Risk and Compliance Committee aimed at enhancing risk management and compliance throughout the Daio Group. Under the direction of the director in charge, this committee deliberates on policies and measures related to the establishment of the Daio Group's compliance and risk management systems, comprehensive identification and assessment of risks, centralized countermeasure management, and countermeasures according to the importance of the risks. The results of its deliberations are reported to the Board of Directors as necessary. The Risk and Compliance Committee has eight subcommittees as its subordinate bodies. Each subcommittee periodically reports on the status of its initiatives to the Risk and Compliance Committee, which then devises, determines, and promotes specific actions according to the characteristics of each risk, thereby ensuring the high effectiveness of the Group's risk management structure.

Organizational chart



Initiatives and achievements

Anti-corruption Initiatives

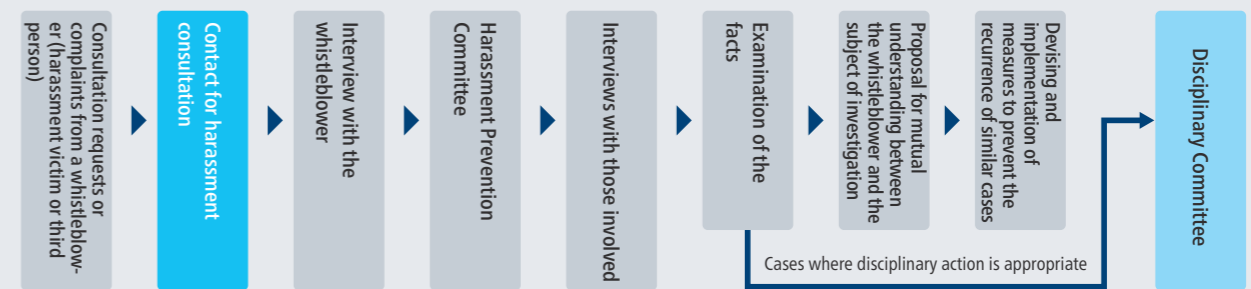
The Daio Group is committed to thoroughly prevent bribery and practicing sincere and ethical management under the Daio Group Anti-Bribery Policy and the Daio Group Anti-Bribery Rules. Our specific anti-bribery measures include the following: providing regular training for Daio Group officers and employees; prohibiting them from receiving gifts or entertainment from business partners in principle and from bribing public officials and the like; conducting supplier risk assessments; concluding agreements that include anti-bribery provisions with suppliers; prohibiting inappropriate donations to political parties or charities; and periodically monitoring the

status of compliance with applicable laws and internal rules. In addition, to build good partnerships with our suppliers and carry out fair and equitable transactions with them, we have formulated the Daio Group Sustainable Procurement Guidelines Based on the SDGs. These guidelines clearly state our commitment to thorough compliance with laws and social norms, fair transactions, and prohibition on offering, receiving, or extorting inappropriate benefits such as bribes. Under these guidelines, we promote comprehensive measures to prevent corruption in transactions.

Internal whistle-blowing system (Hotline)

We have established the Daio Group Corporate Ethics Hotline so that we can quickly detect compliance risks, including those of bribery and corruption in general, in our business activities and adopt remedial measures or prevent the realization of those risks. This system allows all officers and employees of Daio Paper and its subsidiaries to consult or report on any compliance violations or signs of them they find. All consultation requests and reports are responded to in a timely and appropriate manner after full investigations are conducted. In addition, any disadvantageous treatment of whistleblowers is prohibited, while the privacy of those involved is protected. We have both internal and external

contacts for whistleblowing: the Audit Division and an external attorney. To address actual or likely harassment cases, the Personnel Division has a specialist contact for consultation. If a case is recognized as constituting harassment, the Harassment Prevention Committee will be convened, and necessary investigations are conducted of those involved. After the facts are examined and established, appropriate measures to prevent the recurrence of similar cases are adopted according to the case. We have also established a system for enabling whistleblowers to receive care from in-house industrial health staff.



Compliance training and education for employees

The Daio Group routinely provides compliance training for all employees. In the training, various educational materials are used, such as the Compliance Case Collection, which includes a commentary on each item in the Daio Group Code of Conduct and four-frame comic strips about actual compliance-related cases in the Company and other companies. Based on such materials, trainees at each site or workplace discuss measures to ensure compliance with laws and regulations and matters that require special attention. Furthermore, we also irregularly publish Daio Bulletin and post it on our intranet. This bulletin

introduces laws and regulations that corporate staff should know, basic compliance-related topics and terms, and recent high-profile cases. Using this medium, we routinely and widely share compliance information related to law revisions and our operations with the aim of raising compliance awareness throughout the Daio Group.



* Our initiatives in this field focus on Targets 5, 6 and 7 of Goal 16.