

Roadmap to Realizing the Long-Term Vision

In 2012, the Group made a fresh start as a restructured Daio Paper Group and set out its long-term vision with a target of the fiscal year ending March 31, 2027 (FY2026), 15 years into the future. The Group will realize the long-term vision by working on various growth strategies and structural reform measures under its medium-term business plans.

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

“Restart—Solid Reform and Further Growth”

(1) Rebuilding of Business Foundation and Growth Strategy

Revamping of governance structure, integrated management and operation of production and sales, achievement of higher efficiency through merger of organization and Group companies as well as improvement of financial strength.

(2) Improvement of Profitability of Paper Business through Cost Reduction and Structural Shift of Product Mix

Reduction of pulp costs by increasing kraft pulp production, structural shift of product mix, reduction of logistics costs, increase of profitability with the involvement of every member of the Company through a flag system (a bottom-up suggestion/feedback tool) and best practices.

(3) Strengthening of Containerboard and Corrugated Container Business

Merger and integrated operation of corrugated cardboard subsidiaries, relocation of paper machine from Kani Mill to Iwaki Daio Paper and rebuilding it into a containerboard machine.

(4) Expansion of Home and Personal Care (H&PC) Business

Improvement of profitability of household paper products (shift to high value-added products), strengthening of domestic absorbent products business and strengthening of absorbent products business in Asia (establishment of EIT [Thailand] in 2011, EICN [Nantong, China] in 2012 and EIMI [Indonesia] in 2014).

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

“Step-up—Leap and Expand”

(1) Structural Shifting of Paper Business

Shift of product mix to maximize profit, acquisition of Miura Printing and integration of its operations with Daio Printing Corporation.

(2) Strengthening of Containerboard and Corrugated Container Business

Start of operation of No. 3 paper machine at Iwaki Daio Paper, strengthening of proposal activities to regional users following merger of corrugated cardboard subsidiaries, joint proposals of corrugated containers and paper containers enabled by integrated operations with the acquired Daiwa Shiko.

(3) Further Growth and Acceleration of H&PC Business

Increase of market share for household paper products through the acquisition of Nisshinbo Holding's paper products business, increase of sales of high value-added products leveraging strength of Elleair brand and expansion of domestic supply capacity for absorbent products through start of operation of Elleair Product's Fukushima Mill.

(4) Development of New Businesses/ Cellulose Nanofiber (CNF) Business

Expansion of CNF product lineup through start of operation of pilot plant for production of dry powder type CNF.

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

“Move on: Reform and Soar Above”

(1) Radical Cross-Business Structural Reform of Paper and Paperboard Business and H&PC Business

Operation of KN1 sanitary paper machine in October 2018 in Kawanae Mill, rebuilding of N7 containerboard machine—which was repurposed from a machine for paper—to produce containerboard and its start of operation in April 2020, expansion in exports of containerboard and kraft paper to Asian markets as well as strengthening of cost competitiveness through use of hard-to-recycle recovered paper.

(2) Global Expansion and Strengthening of Profitability of H&PC Business

Expansion in sales of premium toilet tissue in China, expansion of overseas business through acquisitions in Brazil (Santher S.A.) and Turkey (Özen A.S.) and strengthening of domestic supply capacity for masks, wet wipes and paper towels.

(3) New Businesses

Commencement of biomass power generation business using feed-in tariff (FIT) scheme in July 2020 and efforts toward commercialization of CNF (as material for table tennis rackets by Tamasu Co., Ltd., as materials for electric vehicle [EV] racing cars, etc.).

Long-Term Vision

(FY2012–FY2026)

Management Philosophy

“Shaping an abundant and affable future for the world”

The Group set targets to be achieved in FY2026 as milestones aimed at achieving its management philosophy. The targets are net sales of ¥800 billion to ¥1 trillion, with 50% or more contributed from the H&PC Business and 30% or more from the H&PC overseas business. Moreover, by backcasting from these targets to identify the necessary actions that are then incorporated into three-year medium-term business plans, the Group has increased the likelihood of it achieving these targets.

The Group strives to increase its corporate value through sustainable growth by establishing a stable earnings base to enable a viable growth investment strategy. It seeks to do so by pursuing globalization in its business as well as structural reform to adapt to changes in the business environment.

		The First Medium-Term Business Plan		
		FY2012	FY2013	FY2014
Consolidated net sales	(Billions of Yen)	407.4	430.1	450.2
H&PC overseas business net sales	(Billions of Yen)	10.7	13.1	22.2
H&PC overseas business net sales ratio	(%)	2.6	3.0	4.9
Operating profit	(Billions of Yen)	11.6	16.0	21.8
Operating margin	(%)	2.8	3.7	4.8
Profit attributable to owners of parent	(Billions of Yen)	15.1	6.3	13.2
Equity	(Billions of Yen)	97.1	109.8	154.5
ROE	(%)	16.8	6.1	10.0
Net interest-bearing debt	(Billions of Yen)	363.5	331.8	292.5
Net debt to equity ratio	(Times)	3.7	3.0	1.9

The Second Medium-Term Business Plan			The Third Medium-Term Business Plan			Long-Term Vision
FY2015	FY2016	FY2017	FY2018	FY2019	FY2020 (Plans)	FY2026 (Plans)
474.1	477.1	531.3	533.9	546.4	565.0	¥800 billion–¥1 trillion
25.1	31.8	41.1	34.5	34.5	65.0	—
5.3	6.7	7.7	6.5	6.3	11.5	30% or more
24.3	23.5	11.1	12.1	30.6	32.0	¥80 billion–¥100 billion
5.1	4.9	2.1	2.3	5.6	5.7	10%
14.6	12.1	4.0	4.7	19.2	14.5	—
163.1	176.5	178.0	185.6	199.1	—	—
9.2	7.1	2.2	2.6	10.0	6.5	12% or more
281.5	255.1	280.0	301.9	285.4	320.0	—
1.7	1.4	1.6	1.6	1.4	1.4	Less than 1.0x

Overview of the Third Medium-Term Business Plan (FY2018–FY2020)

Under the Third Medium-Term Business Plan “Move on: Reform and Soar Above,” the Daio Paper Group is strategically transforming its business portfolio and further globalizing its business to become a corporate group capable of continuous growth.

The Third Medium-Term Business Plan

“Move on: Reform and Soar Above”

- 1. Radical cross-business structural reform of Paper and Paperboard Business and Home and Personal Care (H&PC) Business**
 - Shift from graphic paper to packaging paper and household paper products
 - Increase export of containerboard and kraft paper to Asia
 - Operation of new household paper machine at Kawano Mill
- 2. Global expansion and strengthening of profitability of H&PC Business**
 - Household paper business expansion
 - Domestic: Strengthen supply structure and establish dominant No.1 position in market share
 - Overseas: Accelerate multi-category business expansion with household paper and absorbent product
 - Absorbent products business expansion
 - Domestic: Develop products and implement initiatives to address social needs
 - Overseas: Expand sales area and channels and accelerate multi-category business expansion
- 3. New businesses and SDGs initiatives**
 - Early commercialization of cellulose nanofiber (CNF)
 - Launch of biomass power generation under the feed-in tariff (FIT) scheme (launched in July 2020)

Focus

Acceleration of Export of Packaging Paper

April 2020: Start of operation of N7 containerboard machine at Mishima Mill



▶ Export and sell to China and Asian countries where there is strong demand

Export sales: Approx. **24,000** t/month

Further Globalization of Our Business

May 2020: Acquisition of Özen A.S. in Turkey
June 2020: Acquisition of Santher S.A. in Brazil

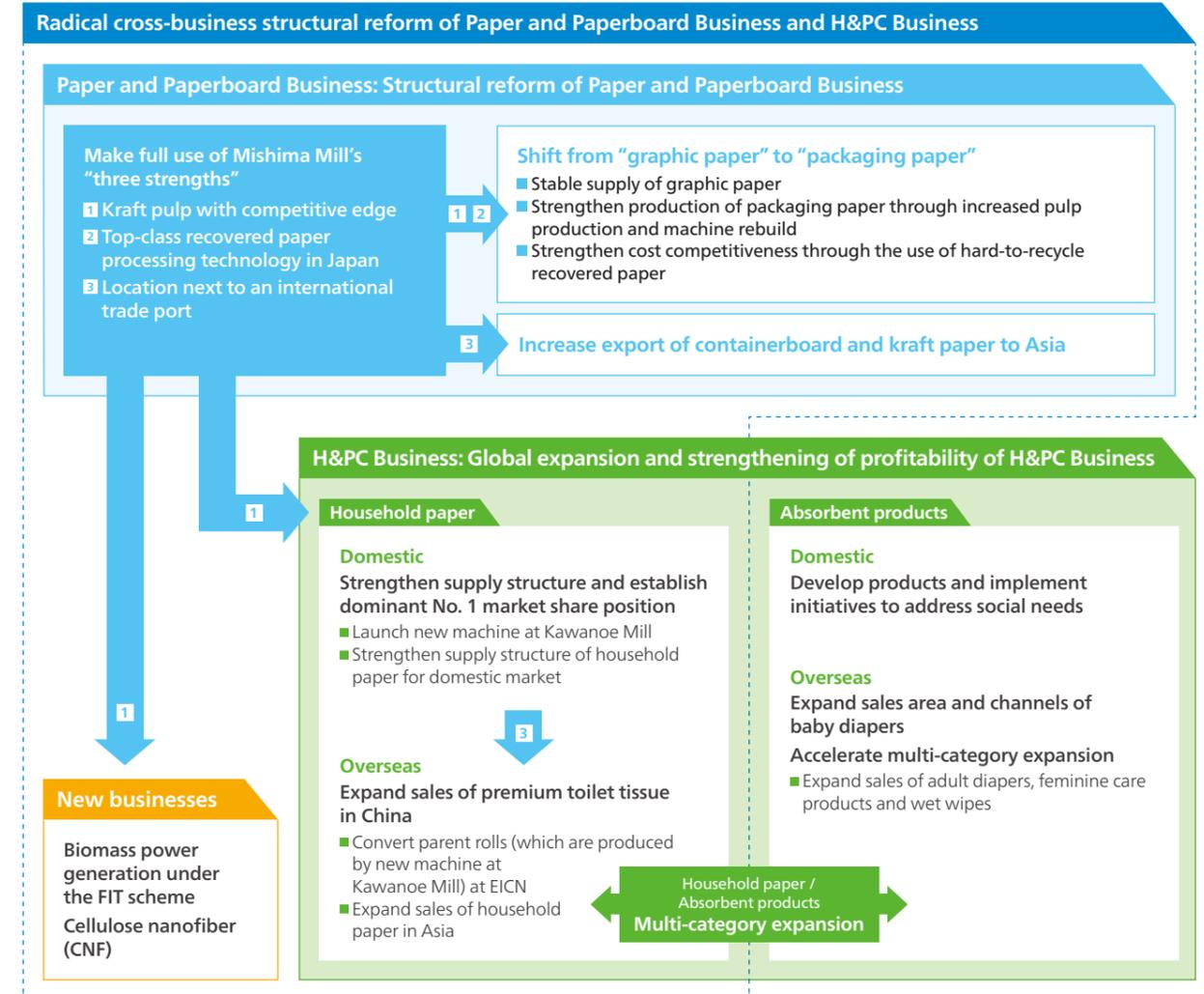


▶ Aim to expand business from Turkey and Brazil to their neighboring countries

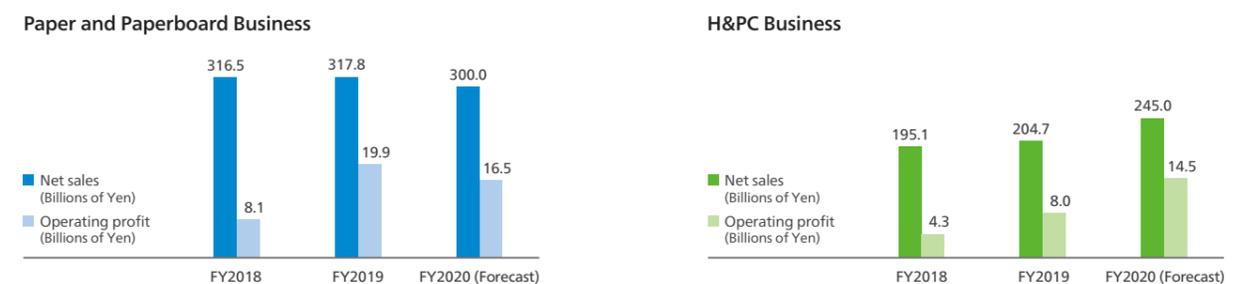
Aim for overseas net sales composition of **30** % in FY2026

The Big Picture of the Key Strategies

The Daio Paper Group will make the shift from graphic paper to packaging paper and household paper through a radical cross-business structural reform of Paper and Paperboard Business and H&PC Business and strengthen its production and sales structures. In addition, Daio Paper will establish a resilient corporate structure by leveraging its unique business portfolio of both absorbent products and household paper to carry out a multi-category strategic expansion of the H&PC overseas business.



Net Sales and Operating Profit Results and Outlook by Segment



Progress with the Third Medium-Term Business Plan

Paper and Paperboard Business

Newsprint and Paper Business



Opportunities and Risks

- Acceleration of a worldwide shift toward paperless solutions due to the impact of COVID-19
- Decrease in demand for office paper due to the increase of remote work
- Increase in quality requirements related to overall decrease in demand



Key Strategies

- Develop new products in response to changes in demand and establish new sales methods
- Further strengthen paper business by becoming a one-stop source
- Strengthen competitiveness through strategic collaboration between Group printing companies

Message from the General Manager of the Business Group

Executing market-driven sales strategies and firmly capturing demand while advancing structural reform in response to changes in the demand structure

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



As factors such as the progression of digitalization continue to drive changes in paper's demand structure, paper demand is shrinking at an even faster rate with the COVID-19 pandemic worsening the situation. In particular, the impact on graphic paper, such as newsprint and printing paper, was greater than expected, and among these, the demand for paper for magazines and catalogs was hit the hardest.

In light of such changes in the business environment, our policy is to move ahead with the shift from graphic paper to packaging paper, which is one of the main strategies of the Third Medium-Term Business Plan.

To go into further detail, the Mishima Mill—Daio Paper Group's core paper mill—is capable of producing a wide variety of paper grades. We will leverage that strength to repurpose machines and rationalize production according to market demand, while improving productivity by consolidating paper machines and product offerings. We will also follow through with our unique sales style, embodied by our slogan: "what is made by Daio is sold only by Daio sales representatives." Here at Daio Paper, we value a direct connection with our customers. By having each and every sales representative connect with and identify the real needs

of customers, we can develop products that meet demand. Furthermore, we will not stop at being a supplier of materials. We are reforming our sales proposals to also suggest additional applications and finished products incorporating our materials.

With regard to the paper business, where the environment is even more severe, we are strengthening the downstream printing business and enhancing profitability by integrating operations of the paper business and the printing business. By sharing know-how and doing joint proposals with solutions from each Group printing company's specialty fields, we will tap into and secure new demand, and work to strengthen our competitiveness by improving in-house production rate and consolidating facilities and organizations.

The demand trend for paper in the years ahead remains uncertain, but it is reasonable to think that we cannot expect a significant recovery even after the COVID-19 pandemic is over. However, even in a shrinking market, there are always opportunities. We will figure out how best to leverage our competitive advantage to make profits and survive in the face of declining demand, and put into effect a bold growth strategy that is in keeping with the trends of the times.

Industrial Paper and Containerboard Business



Opportunities and Risks

- Booming demand in China and Asia, where economic growth continues
- Further acceleration of structural reform through the integration of containerboard and corrugated container production
- Increasing demand for paper materials to replace plastics



Key Strategies

- Increase sales by functioning as a one-stop source for containerboard solutions
- Expand globally by leveraging the competitive advantages of Mishima Mill
- Focus on development and sale of environment-friendly paper materials and paper products, and expansion of lineups for such products

Message from the General Manager of the Business Group

Promoting the shift to packaging paper while focusing on the development and sale of paper materials that are in keeping with current trends

Atsushi Ishida
Senior Executive Officer
General Manager of Industrial Paper and Containerboard Business Group,
Paper & Paperboard Unit



The Group has long been promoting structural reforms in its Paper and Paperboard Business in anticipation of changes in the demand structure, such as for paper and newsprint, under the policy of maximizing utilization of the Mishima Mill's infrastructure.

In March 2020, we completed rebuilding the N7 paper machine into a containerboard machine, and operations started in April as planned. While we started sales under a harsh environment due to the impact of the COVID-19 pandemic, sales are going well as a result of our unique field activities. These include proposing "one-stop delivery" solutions that are possible because we can stably supply all types of containerboard from a single mill, as well as solutions that do not rely on pricing to set Daio Paper apart from other companies and meet changing needs. For export, we developed high-performance products (such as linerboards with high burst strength) by visiting foreign corrugated container companies to directly find out their needs. As a result, we achieved full production within three months of operation. In the years to come, we intend to strengthen our competitiveness, including in terms of quality and distribution costs, in order to meet the demand from Japan

and also the strong demand from China and other Asian countries, thus further expanding sales and improving profitability.

With regard to the wrapping and packaging paper business, we anticipated that more companies would make the switch to paper materials due to the current plastic-free movement and because Japan started requiring retailers to charge their customers for plastic bags in July 2020. Due to the COVID-19 pandemic, however, demand for shopping bags and other items has declined, stagnating current business performance. Nevertheless, I believe that Daio Paper has the weapons that will enable us to put up a good fight even under such difficult circumstances. One such weapon is that we are capable of providing a "total packaging" solution that offers an assortment of all kinds of wrapping and packaging paper. Furthermore, instead of selling paper merely as a material, we will focus on developing and selling paper as a product, adding value to paper by emphasizing its environment-friendly properties and converting it into finished products such as cutlery or clothes hangers. In the years to come, we would like to boost in-house production for such finished products.

Progress with the Third Medium-Term Business Plan

Home and Personal Care Business

Domestic Business



Opportunities and Risks

- Shrinking market for household paper/absorbent products due to the population decline (declining birthrate and aging population) in Japan
- Heightened hygiene consciousness during/after the COVID-19 pandemic
- Changes in social structure due to the COVID-19 pandemic



Key Strategies

- Evolve the Elleair brand, strengthen market share and maintain top market position in domestic household paper products (facial tissue, toilet tissue, paper towels, kitchen towels)
- Accelerate integrated operations (sales, production, development, marketing) in absorbent products business (baby care, feminine care, elder care)
- Develop and increase sales of products with increased added value and products that help mitigate COVID-19 transmissions

Message from the General Manager of the Business Group

Increasing value of the Elleair brand through high value-added products, while quickly and flexibly responding to a business environment transformed by COVID-19

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



The Home and Personal Care (H&PC) Business in Japan has two pillars of business: household paper (such as facial tissue, toilet tissue and kitchen paper) and absorbent products (such as disposable diapers and feminine care products). We are implementing our own sales strategies that value direct connections with the market and consumers.

In FY2019, we had strong sales and high profit. We made steady progress in initiatives in the household paper category: increasing sales of value-added products, price revision, and logistics reforms. Furthermore, factors such as the consumption tax rate hike in Japan, and the COVID-19 pandemic, which led to an increase in demand for hygiene-related products, also contributed to strong business performance.

The foundation for our business growth is our flagship Elleair brand, which celebrated its 40th anniversary last year. Since FY2018, we have maintained a dominant No.1 market share position in all categories of household paper, namely facial tissue, toilet tissue and kitchen paper. To consolidate this position, under the Third Medium-Term Business Plan we are focusing on "expanding the lineup of value-added products."

As the leading manufacturer of household paper, we are acutely aware of our mission to "help address social issues through our business," and thus we are also quickly responding to the diversifying needs caused by the COVID-19 pandemic. In April 2020, we started the domestic production of masks, the supply and demand of which had been tight. Initially, we prioritized the supply of masks to medical institutions and nursing care facilities, but we have now started to supply retail stores. We are also working to stabilize the supply of sanitizing wet tissue products and paper towels, the latter of which is in high demand as facilities are seeking alternatives to hand dryers, and we plan to install new machines at the Mishima Mill and the Kawano Mill in 2021.

For absorbent products, we are in the process of implementing a large number of measures to expand the business. We seek to increase sales of absorbent products by leveraging the brand equity we have established with household paper. We also intend to further strengthen profitability by developing and updating our products to better reflect the needs of our customers and by optimizing our production structure.

Overseas Business



Opportunities and Risks

- Exchange rate fluctuations and geopolitical risks in countries throughout the world
- Competition with global and local manufacturers
- Increasing demand for personal care products in regions with relatively high economic growth potential



Key Strategies

- Pursue multi-category business expansion and realignment of distributor networks in countries where Daio Paper already has a presence
- Establish foundation to further expand business of acquired companies
- Conduct research on potential new markets

Message from the General Manager of the Business Group

From Asia to the world, toward sales of ¥300 billion and operating margin of 10% in the Fifth Medium-Term Business Plan

Toshiki Yamagami
Director
General Manager of
Overseas Business Group,
Home & Personal Care Unit



In FY2019, we acquired a hygiene products manufacturer in Turkey and a paper and hygiene products manufacturer in Brazil, meaning we have production and sales bases in China, Southeast Asia, the Middle East and North Africa, and South America.

In China, we have established certain market positioning by enhancing our product lineup in the premium zone through local production for local consumption. Hereafter, we will review the product lineup to suit each business type and area to further enhance our presence. Hygiene awareness is also rising, so, compounding on toilet tissues that disintegrate well and can be safely flushed, we will add wet wipes and healthcare-related products to our lineup and advance our multi-category business expansion strategy.

In Thailand, we have realigned our distributor network, from using a single, main distributor to using multiple, regional distributors. Currently, we are working to strengthen our sales activities nationwide as the realignment has enabled detailed business negotiations and distribution activities with not only major retail chains headquartered in the capital city, but also with local general stores and shops that sell baby products. To advance the multi-category business expansion strategy, we aspire to expand our current lineup of baby diapers, wet wipes and other locally produced products with household paper

products such as toilet tissue, as well as to enhance the lineup of alcohol-based wet wipes since demand is expanding. We also aim to increase export sales from the Thai base to Myanmar, Cambodia and other under-tapped markets in the region, in addition to Vietnam, Malaysia and the Philippines.

In Indonesia, we are concentrating on sales on the Java and Sumatra islands, which account for 80% of local demand, and are fully utilizing our multiple distributor network to expand sales. This network allows us to tailor our product proposals and store follow-up activities to the demand structure of each region and channel, such as minimarkets, shops that sell baby products, traditional shops (*warung*) and e-commerce.

As noted, in 2020, we acquired two companies: Özen A.S. in Turkey and Santher S.A. in Brazil. First, our goal is to expand our business in Turkey and its neighboring countries, and in South America through the acquired companies. Hereafter, we are aiming to expand into Africa with Turkey and Brazil as footholds.

The Group respects the culture, religions and customs of each country, and we aspire to empower the local employees of our foreign subsidiaries to lead initiatives. We also dutifully contribute part of our profits back to the local community through local community initiatives.