

Daio Group's Vision and Medium-Term Business Plans

The Group made a fresh start as the restructured Daio Group in 2012, and has since primarily pursued structural reforms and overseas expansion under its Medium-Term Business Plans. The Group set out its long-term vision with specific targets to be achieved by the fiscal year ending March 31, 2027 (FY2026): net sales of ¥800 billion to ¥1 trillion, 50% or more of which will be generated by the Home and Personal Care (H&PC) Business and 30% or more from the H&PC overseas business, and an operating margin of 10%. Aiming toward the next growth stage and a new future, the Group will strategically transform its business portfolio to become a corporate group capable of continuous growth.



The Group's Medium-Term Business Plans, formulated by backcasting from the targets set out in the long-term vision, is centered around two business strategies: structural reforms to reinforce its business foundation and transform its business portfolio; and expansion into overseas growth markets to strengthen and expand the H&PC Business.

With regard to structural reforms, the Group has carried out a strategic shift of product mix, maintaining full pulp production and preventing machine shutdowns—it has even increased its kraft pulp production. By increasing the share of household paper and containerboard, which are experiencing growing demand, in its product mix and maintaining its machine utilization rate, the Group has amplified its competitive advantages.

Regarding overseas business expansion, by establishing production bases, which produce

mainly baby diapers, in China, Thailand and Indonesia, the Group has developed an infrastructure for local production and consumption in Asia. Under the Third Medium-Term Business Plan, the Group conducted M&A in Brazil and Turkey, establishing new entry points in South America and MENA (Middle East and North Africa).

While implementing these business strategies, the Group is also taking actions to combat the urgent global challenge of climate change and other ESG (environmental, social and governance) issues and to contribute to the creation of a sustainable society, which is the objective of the SDGs. Through these initiatives, the Group aims to realize its management philosophy of "Shaping an abundant and affable future for the world."

SECTION 01 Fulfilling Our Purpose
—Value Creation Story of the Daio Group—

SECTION 02 Achieving Sustainable Growth
—Strategy for Continuing to Provide Value—

SECTION 03 Responding to Social Issues
—Foundation for Sustainable Growth—

SECTION 04 Data and Information
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Net sales

¥800 billion to ¥1 trillion

H&PC net sales ratio

H&PC overseas net sales ratio

50% or more 30% or more

Operating margin

10%

Planning through backcasting from the vision of an "Abundant and Affable Future"

2030

Contribution to the achievement of the SDGs

2050

Japanese government's target year for achieving carbon neutrality

Daio Abundant and Affable Future 2030

SUSTAINABLE DEVELOPMENT GOALS

P.45

Contribution to the realization of a decarbonized society

P.57

Customers

High-quality, high-value-added products and services

Employees and their families

Safety-first workplace environment

Suppliers

Grow together

Local communities

Lifestyle, industrial and cultural development

Shareholders and investors

Stable dividend and improvement of share prices

Shaping an abundant and affable future for the world

Management Philosophy

Three Well-beings

1. Hygiene Protect well-being of the body



We will make hygiene products accessible, inspire good habits, protect people's health, and realize an inclusive society in every community.

2. Life Enhance well-being of lifestyles



We will provide services that enhance lifestyles, improve the quality of life, and enable people to lead happy and enriching lives.

3. Regeneration Restore well-being of the earth

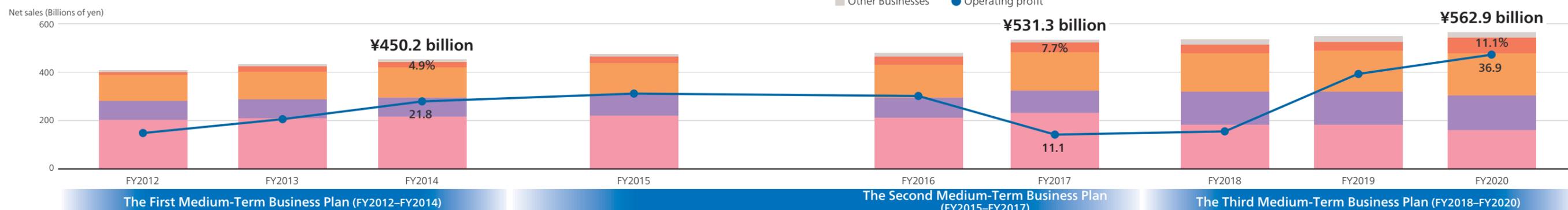


We will actively conserve the environment and regenerate the earth back into a planet with abundant nature where diverse organisms coexist and thrive.

Review of the Medium-Term Business Plans

Over the nine years from the First (FY2012) to Third (FY2020) Medium-Term Business Plans, the Group achieved significant improvements in business performance through the expansion of the H&PC Business, while maintaining stable sales in the Paper & Paperboard Business through structural reforms. The Group recorded increases in net sales and operating profit for eight and three consecutive years respectively, and successfully built the foundation for the next growth stage to a new future.

Net Sales and Operating Profit by Business



Restart—Solid Reform and Further Growth

Step-up—Leap and Expand

Move on: Reform and Soar Above

Basic Policies

- Rebuilding of business foundation
- Improvement of profitability of the paper business through cost reduction and structural shift of product mix
- Strengthening of the containerboard and corrugated container business
- Expansion of Home and Personal Care (H&PC) Business

- Structural shift of the paper business
- Strengthening of the containerboard and corrugated container business

- Further growth and acceleration of H&PC Business
- Development of new businesses / Cellulose Nanofiber (CNF)

- Radical cross-business structural reform of Paper and Paperboard Business and H&PC Business
- Global expansion and strengthening of profitability of H&PC Business
- Early commercialization of Cellulose Nanofiber (CNF)

Review

Promoted structural reforms and improvement of financial strength to rebuild the business foundation

(Billions of yen)	Targets	Results
Net sales	450.0	450.2
Ordinary profit	22.5	21.7
Interest-bearing debt	400.0	375.0
Equity ratio	17%	23.7%
Net debt to equity ratio	3.8	2.4

Promoted H&PC overseas business expansion
Achieved significant expansion of net sales through domestic M&A
Failed to achieve the profit target

(Billions of yen)	Targets	Results
Net sales	500.0	531.3
Ordinary profit	25.0	12.8
Net interest-bearing debt	250.0	280.0
Equity ratio	28%	25.9%
Net debt to equity ratio	1.5	1.6

Conducted cross-business structural reforms and overseas M&A
Achieved targets for all items other than net sales

(Billions of yen)	Targets	Results
Net sales	615.0	562.9
Operating profit*	32.0	36.9
H&PC overseas net sales ratio	15%	11.1%
ROE	8%	10.1%
Net debt to equity ratio	1.6	1.3

* Operating profit is used as a profit indicator from the 3rd MTBP.

Restart —Solid Reform and Further Growth

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

Review

Under the First Medium-Term Business Plan, in response to a continuing decline in demand for paper and in order to maintain full pulp production at the Mishima Mill, the Group embarked on a structural reform. Aiming to improve the profitability of the paper business through thorough cost reduction and a structural shift of the product mix, the Group worked to reduce pulp costs by increasing kraft pulp production and improve the profitability of paper products by shifting to higher value-added products. At the same time, in order to build an optimal production system that meets demand, the Group converted paper machines at the Kani Mill into containerboard machines to respond to

increasing demand for containerboard. It also merged and integrated the operations of its corrugated container subsidiaries to strengthen the containerboard and corrugated container business. Meanwhile, to further expand the H&PC Business as part of its growth strategy, the Group established factories in Thailand in 2011, in China (Nantong) in 2012, and in Indonesia in 2014 to produce mainly baby diapers, thereby building an infrastructure for local production and consumption in Asia.

The Group also worked on revamping its governance structure and improving its financial strength in order to rebuild its business foundation.

Issues

- Further structural shifting of the paper business
- Strengthening of production facilities of H&PC Business

Step-up —Leap and Expand

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

Review

Under the Second Medium-Term Business Plan, the Group continued to promote the structural shift of the paper business and shifted the product mix to maximize profit. It also worked to further strengthen the containerboard and corrugated container business by starting operation of the No. 3 paper machine at Iwaki Daio Paper.

With regard to the H&PC domestic business, the Group acquired the paper products business from Nisshinbo Holdings Inc., achieving an increase in market share of household paper products.

Issues

- Radical structural reform from paper business to growth business
- Expansion into new overseas markets

The Group also worked to increase sales of high value-added products by leveraging the strength of the Elleair brand, and expanded the domestic supply capacity for absorbent products by commencing operation of Elleair Product's Fukushima Factory. As for overseas business, in addition to expanding its production facilities and broadening the product lineup to increase sales in Thailand, China and Indonesia, the Group increased exports from Japan to Korea, Russia, Taiwan, etc.

Furthermore, with regard to the Cellulose Nanofiber (CNF) business, a new business that it hopes would drive future growth, the Group worked to expand the CNF product lineup by starting the operation of a pilot plant for the production of dry powder-type CNF.

Move on: Reform and Soar Above

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

Review

Under the Third Medium-Term Business Plan, the Group launched a radical cross-business structural reform of the Paper & Paperboard Business and the H&PC Business. The Group resumed operation of the Kawano Mill in October 2018 to produce household paper by using pulp that was made available by shifting from paper to containerboard, and also strengthened the paper products business acquired from Nisshinbo Holdings Inc. Through these measures, the Group increased its share of the household paper products market and strengthened the profitability of the H&PC Business. As for growth strategies, the H&PC

overseas business focused on expanding sales of premium toilet tissue in China. Furthermore, the Group gained operation bases in new markets in South America and MENA through M&As in Brazil (Santher S.A.) and Turkey (Özen A.S.). In new businesses, the Group commenced the biomass power generation business using the feed-in tariff (FIT) scheme in July 2020. Also, progress was seen in the commercialization of CNF as material for table tennis rackets, parts of electric racing cars, etc.

Issues

- Continuation of ongoing structural reforms and promotion of overseas growth strategies (bringing overseas business into the black)
- Promotion of management that is conscious of capital efficiency and strengthening of financial strength

Overview and Progress of the Fourth Medium-Term Business Plan

GEAR UP The Next Growth Stage, to a New Future

Since FY2021, the Daio Group has been actively committed to implementing the Fourth Medium-Term Business Plan under the slogan "GEAR UP: The Next Growth Stage, to a New Future." Aiming to realize the Three Well-beings, the Group has been accelerating its initiatives to shape a new future in high gear.

Basic Policies of the Fourth Medium-Term Business Plan

- 1 Establish a strong and resilient business portfolio**
- 2 Improve financial strength**
- 3 Respond to climate change (Carbon neutrality by 2050)**

- 1 Establish a strong and resilient business portfolio**
 - Build an even greater competitive advantage in the Paper and Paperboard (P&P) Business through continuous structural reforms
 - Lead the Group's growth through faster multi-category business expansion and further acquisition in the Home and Personal Care (H&PC) Business
 - Create future growth opportunities through new businesses such as Carbon Nanofiber (CNF)
- 2 Improve financial strength**
 - Strengthen cash generating capacity and improve cash flow by capitalizing on the results of structural reforms and strategic investment
 - Promote management conscious of capital costs and return on capital by introducing ROIC as a management indicator
 - Obtain and maintain a credit rating of A
- 3 Respond to climate change (Carbon neutrality by 2050)**
 - Promote the use of renewable energy, aiming to achieve decarbonization by 2050
 - Continually engage in proper plantation management and expansion of plantation areas
 - Promote a shift to environmentally friendly materials through CNF and plastic-free product businesses

Progress highlights

- Started operating a paper towel machine at the Mishima Mill
- Started operating the second machine for household paper products at the Kawano Mill
- Obtained an A rating in September 2021
- Started conducting an environmental impact assessment in preparation for the installation of a waste-to-energy boiler at the Mishima Mill
- Obtained about 6.0 km² (nearly 1,500 acres) of land for plantation in Chile, South America

	1st MTBP (FY2014)	2nd MTBP (FY2017)	3rd MTBP (FY2020)	4th MTBP		Vision for the 5th MTBP (FY2026)
				(FY2021)	(FY2023)	
Net sales	450.2	531.3	562.9	612.3	720.0	¥800 billion to ¥1 trillion
Operating profit (operating margin)	21.8 (4.8%)	11.1 (2.1%)	36.9 (6.6%)	37.6 (6.1%)	51.0 (7.1%)	80.0-100.0 (10%)
H&PC overseas net sales ratio	4.9%	7.7%	11.1%	12.1%	18.8%	30% or more
ROE	10.0%	2.2%	10.1%	9.5%	10% or more	12% or more
Net debt to equity ratio	1.9	1.6	1.3	1.1	1.0	1.0 or less

Progress of the Fourth Medium-Term Business Plan

Prioritized investments in the growth-driving H&PC business

Business segment	FY2021			Plan for FY2023		
	Net sales (Billions of yen)	Operating profit (Billions of yen)	Operating margin	Net sales (Billions of yen)	Operating profit (Billions of yen)	Operating margin
Paper & Paperboard	327.4	22.3	6.8%	330.0	18.0	5.5%
H&PC	257.3*	11.9	4.6%	360.0	30.0	8.3%
(Breakdown)						
Domestic	183.2	15.5	8.5%	225.0	23.0	10.2%
Overseas	74.1	(3.6)	—	135.0	7.0	5.2%
Other businesses (including adjustments)	27.6	3.3	12.0%	30.0	3.0	10.0%
Total	612.3	37.6	6.1%	720.0	51.0	7.1%

* This net sales amount is a downward revision of about 6.1 billion yen from the previous disclosure due to the application of accounting standards for revenue recognition.

The H&PC Business will exceed the Paper and Paperboard Business in terms of net sales.

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Material issues

Strategic transformation of business portfolio

Acceleration of global expansion

Creation of new businesses

P&P Business
Strengthen the business through competitive advantages

- Newsprint and paper
- Industrial paper and corrugated containers

H&PC Domestic Business | **H&PC Overseas Business**

Expand market share across all categories

- Household paper
- Baby diapers

Overseas business will lead growth

- Feminine care products
- Adult diapers

New Businesses
Create a third business pillar

- CNF business
- RFID business (IC tags)

Environmental changes

- Accelerating decline in graphic paper demand
- More diverse packaging needs
- Structural growth of e-commerce markets

Environmental changes

- Rise in hygiene consciousness
- Lifestyle changes
- Fragmentation and diversification of uses
- Structural growth of e-commerce markets
- Progress of the aging society

Environmental changes

- Increase in consciousness of environmental conservation
- Economic growth in developing countries
- Change in social issues

Pursue further growth opportunities

- Maintain stable supply
- Strengthen printing and corrugated containers in the processing field
- Shift to product types where demand is anticipated
- Capture e-commerce demand and demand generated by a growing trend toward plastic reduction

Maximize growth opportunities

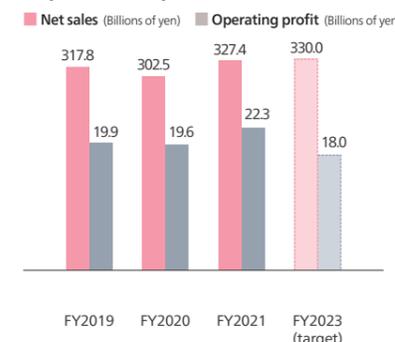
- Solidify the household paper business and strengthen the absorbent products business
- Increase brand loyalty
- Strengthen e-commerce sales channels
- Continually offer high-quality, high value-added products
- Respond to the with/after-COVID-19 society
- Premium strategy
- Accelerate expansion into growth segments and areas
- Accelerate growth through M&A
- Promote multi-category business expansion

Create future growth opportunities

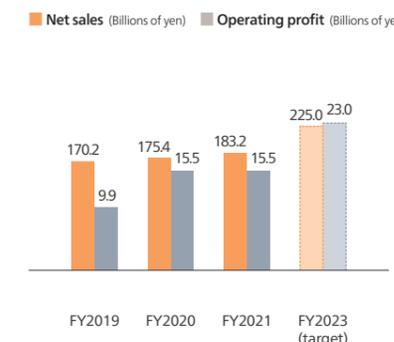
- Swift commercialization of the CNF business
- Entry into potential growth markets

Net Sales and Operating Profit Results and Outlook by Segment

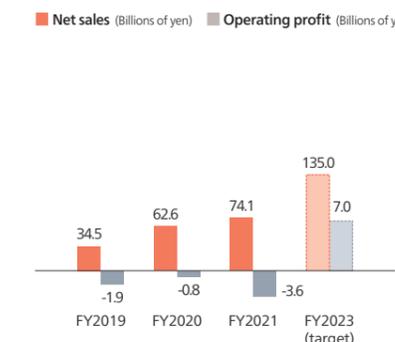
Paper and Paperboard Business



H&PC Domestic Business



H&PC Overseas Business



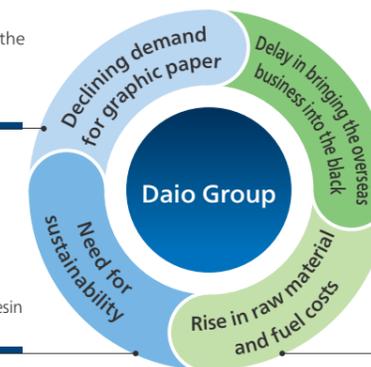
Four Issues Surrounding the Group and Urgent Countermeasures

Further promote structural reforms

- Implement the structural reform of production in the Chubu region
- Enhance the containerboard and corrugated container business

Accelerate initiatives to realize a sustainable society

- Install additional waste boilers
- Expand the total area of plantation land
- Shikokuchuo City Carbon Neutrality Council
- Launch Elipla products
- Start the operation of a pilot plant for CNF composite resin
- Provide students with free period products



Accelerate efforts to establish multi-category businesses and create synergy in overseas markets

- Establish the China Business as a multi-category business
- Create synergy between the three companies in the Brazil Business

Increase resilience to rising raw material and fuel costs

- Utilize hard-to-recycle recovered paper
- Start in-house production of fluff pulp
- Recycle used diapers
- Establish a scheme for procuring paper material chips stably
- Build up the pellet fuel business

Message from the Officer Responsible for Financial Affairs



Continuing to maintain a sufficient level of liquidity to brace against rapid changes in the management environment

Toshihiro Adachi

Executive Vice President and Representative Director, Executive Vice President (Responsible for Corporate Unit, Compliance and Sustainability; General Manager of Business Administration Division, Corporate Unit)

Basic policies on financial strategy

Our current 4th Medium-Term Business Plan (MTBP) defines three basic policies: 1) Establish a strong and resilient business portfolio, 2) Improve financial strength, and 3) Respond to climate change. During the three-year period of the previous 3rd MTBP, against the backdrop of a favorable funding environment and significant progress in improvement of our financial strength, we invested a total of approximately 175.0 billion yen with high leverage in anticipation that those investments would produce visible effects during the 4th MTBP. Amid considerable uncertainties in our business environment, including the lingering COVID-19 pandemic, we set a target of obtaining a credit rating of "A" from the Japan Credit Rating Agency, Ltd. (JCR) and Rating and Investment Information, Inc. (R&I) within the period of the 4th MTBP, while carefully selecting targets for capital investments that are necessary for our

growth. In FY2021, the first year of the plan, we succeeded in obtaining an "A- / Stable" rating from both JCR and R&I. In FY2022, with drastic changes in foreign exchange rates and a sharp rise in material and fuel prices, we are experiencing an increase in the severity of the business environment surrounding us. I believe that, in this situation, the Corporate Unit must play its role in maintaining the Group's financial health (a credit rating of "A") while continuing to make necessary growth investments. We have set a target of achieving net sales of 800.0 billion to 1 trillion yen by the end of the next 5th MTBP. To ensure that the Group will be able to invest aggressively in M&A and other projects during the 5th MTBP, we have adopted a main policy of increasing the Group's financial strength by strengthening its cash generating capacity and improving cash flows under the 4th MTBP.

Review of the FY2021 results

In FY2021, we began to perceive the effects of capital investments we had made under the 3rd MTBP. Aiming for a target of achieving net sales of 720.0 billion yen in the final year of the 4th MTBP, in FY2021 we established all-time records in net sales for the seventh consecutive year, in operating profit for the second consecutive year, and in net profit for the third consecutive year. As shown by these results, which brought us an "A-" rating, we continued to grow steadily. Since the situation became favorable enough for us to issue corporate bonds, we did so in October 2021, for the first time in three years. As a result, the ratio of direct

funding (from corporate bonds and commercial paper [CP]) out of all interest-bearing debt increased from 13.9% as of end of March 2021 to 15.5% as of the end of March 2022. We aim to raise this ratio to 20% by the end of the final year of the 4th MTBP and to 25% by the end of the 5th MTBP period. We will continue our efforts to diversify fund sources and increase the amount of available funds for the 5th MTBP with the aim of establishing a stable footing to make investments for further growth and expansion.

The net debt to equity ratio improved from over 3 at a time during the 1st MTBP, to 1.3 as of the end of March 2021

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and to 1.1 as of the end of March 2022. Despite being in a harsh environment, we aim to further improve this ratio to achieve a target of lowering it to 1 or less by the end of the final year of the 4th MTBP. The equity ratio exceeded 30% as of the end of March 2022 due to an increase in equity capital as a result of our efforts to increase net profit. Our aim for the foreseeable future is to raise the equity ratio to over 35%.

Although we succeeded in yielding good results in these metrics, there is still room for further improvement. We will continue to work to maintain a sufficient level of liquidity to brace against rapid changes in the management environment, and to create cash flows through asset reduction measures, including reducing strategic cross-

shareholdings. Furthermore, in consideration of future acceleration of our overseas business and foreign exchange risks, we are contemplating broadening the scope of contracts in which we use hedging transactions as well as the range of currencies we use. The changes in foreign exchange rates and raw material and fuel prices have caused cost increases far beyond what a single company can absorb. We thank our customers who have consented to our selling price revisions in the spring of 2022. Regrettably, given that raw material and fuel prices remain high, it is necessary for us to pass on the increased costs with further selling price hikes and we will continue to seek the understanding of our customers when doing so.

Vision for asset allocation toward sustainable growth

Let me explain our vision of the composition of net sales of 1 trillion yen, which we aim to achieve in the 5th MTBP. We envision that the Paper and Paperboard Business, which has so far led Daio Paper's growth, will continue to generate annual net sales of 300 billion yen as we direct efforts to offset the inevitable decline in graphic paper sales, brought about by the shrinking paper market, by increasing sales of industrial paper, for which the market is expected to grow due to e-commerce demand and other factors. Meanwhile, the Home and Personal Care (H&PC) Business, our growth engine, will increase its annual domestic and overseas net sales to 300 billion yen each. We plan to earn the remaining 100 billion yen by fostering new businesses in highly promising growth fields, such as carbon nanofiber (CNF).

Based on this vision of the sales mix, in May 2021 we announced a plan to make a total capital investment of 125.0 billion yen during the three-year period of the 4th MTBP. Out of the total amount, 76.5 billion yen will be allocated to growth investment, which includes 55.5 billion yen to the H&PC Business and 10.5 billion yen to the CNF

business and other growth fields. The remaining 48.5 billion yen will be allocated to investment in the maintenance of the Mishima Mill and other facilities. In addition to this total amount (125.0 billion yen), we set a quota of 30.0 billion yen for M&A investment and used it to acquire Yoshikawa Shigyo Co., Ltd. in Hyogo Prefecture, Japan and Yoshizawa Industry Co., Ltd. in Niigata Prefecture, Japan, both of which are corrugated container manufacturers. We will continue to invest agilely in promising projects that can lead us to grow further. Moreover, in March 2022, we signed a contract with Pajero Manufacturing Co., Ltd. to purchase its land and building in a town neighboring the city where the Kani Mill is located with the aim of using the property as a new factory-cum-logistics warehouse. Although this investment was not budgeted for in the initial plan, we went ahead with this project as we saw it as an essential element for strengthening and expanding our H&PC domestic business. We will work to avoid exceeding the investment quota through methods such as reallocating a budget planned for other capital investments.

Progress in our efforts to increase return on invested capital (ROIC)

Up until recently, Daio Paper mainly used income-statement-based indicators as KPIs, and it made decisions on each investment project based on factors such as the payback period and the final return rate. Under the 4th MTBP, we started implementing a management style with an increased focus on business unit-specific capital efficiency. By introducing ROIC as a KPI, we hope that it would drive us to use capital invested efficiently, earning maximal operating profit with minimal capital invested, and improve both cash flows and our financial strength.

To raise awareness of ROIC throughout the Group, we hold workshops intended for all officers and executives of each business group, as well as financial and accounting staff of the subsidiaries. In the workshops, we explain in detail how to maximize ROIC by breaking down the ROIC

formula into each components, visualized by the reverse ROIC tree. In addition, at meetings on the progress of the 4th MTBP, the attendees regularly check on our progress toward undisclosed ROIC targets for the 4th MTBP period, using ROIC values of the entire Group and each business segment. At those meetings, the ROIC values are also analyzed from the two perspectives of the income statement and the balance sheet by breaking them down into such elements as the cost-to-sales ratio, the SG&A expense ratio, the fixed-asset turnover, and the ratio of fixed assets to capital invested.

The key to success is understanding how our everyday operations on-site affect the individual elements that constitute ROIC and how those effects will lead to improvements in ROIC, rather than simply inserting ROIC as it is as a measure of our everyday operations. For example,

against the backdrop of the continuing rise in raw material and fuel prices, the Materials Procurement Division may diversify its suppliers or secure alternative energy sources to lower the cost-to-sales ratio and consequently improve ROIC. Although necessary measures differ depending on the business segment or product, we will provide a more detailed breakdown of ROIC to facilitate discussions by each business group and help them create KPIs that are meaningful to the people on the ground, rather than just

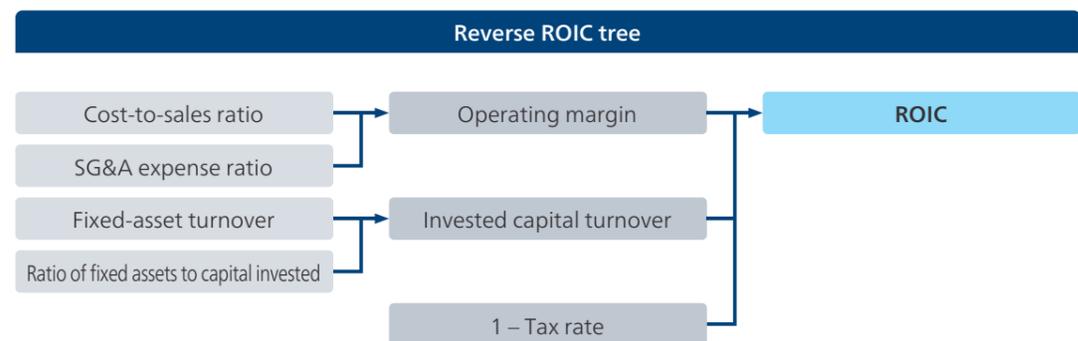
imposing it in a top-down manner, in order to accelerate Group-wide efforts to reduce inventories and improve the cash conversion cycle (CCC) and pursue management that is more conscious of capital efficiency.

I believe that ROIC is very beneficial for us as an indicator that each business group can use when discussing cost-effectiveness and the effects of investment to make various decisions, including decisions on M&A and other growth investments.

The ROIC of the entire Group and each business segment is calculated regularly, and the latest forecasts of ROIC are compared with internal ROIC targets for the 4th MTBP period to monitor our progress. The ROIC values are also analyzed from the two perspectives of the income statement and the balance sheet by breaking them down into such elements as the cost-to-sales ratio and fixed-asset turnover (see the reverse tree diagram of ROIC below).

Moreover, decisions on capital investment and M&A are made through evaluation from the perspective of ROIC.

Under the 4th MTBP, we will perform business management with full consciousness of segment-specific capital efficiency, and efficiently earn operating profit with a small amount of capital invested in order to improve both cash flows and our financial strength.



Initiatives for sustainability management

Daio Paper began to make a clear commitment to sustainability in 2017, when it established the CSR Department (currently the Sustainability Promotion Department). I acknowledge that we had been left far behind by other companies in terms of initiatives for sustainability. However, since we created the Sustainability Committee in 2020, we have devoted a huge amount of energy to speeding up our efforts to enhance our sustainability management. I myself recognize sustainability as the core of corporate management and our top priority. I also recognize environmental issues—such as response to climate change, the realization of a circular society, forest conservation, and the preservation of biodiversity—and social issues, including respect for human rights and human resource development, as material issues that Daio

Paper must tackle by priority.

Discussions at the Sustainability Committee meetings have helped illuminate Group-wide operational challenges, including response to the Task Force on Climate-Related Financial Disclosures (TCFD) recommendations, energy-related challenges, human resource measures, and intellectual property strategy, thereby inspiring Group-wide cooperation in solving these challenges and even changing employees' mindsets drastically. Sustainability is a theme that should be positioned at the center of corporate management, so we are reconsidering the organizational position of the Sustainability Committee with a view to promoting it to be a more important organization. We will also increase the number of staff members of the Sustainability Promotion Department.

In last year's Integrated Report, I said that, in the judgement of each investment projects, "we will evaluate various factors comprehensively—not only monetary return, but also non-financial indicators such as CO₂ emission reduction effects." From April 2022, each investment plan must now include consideration of internal carbon pricing (ICP), building the perspective of sustainability into investment decision-making processes. Although the target year of achieving carbon neutrality is set as 2050, we will strive to achieve the target earlier by speeding up our efforts to utilize forest resources effectively and decarbonize operations. At the Shikokuchuo City Carbon Neutrality Council, which was established in June 2021, local companies and financial institutions and the municipality collaborate closely with each other to decarbonize Shikokuchuo City, a center of paper production in Japan. We will continue to make aggressive investment that contributes to decarbonization.

With regard to human resource strategy, we must further enhance the diversity of our staff in terms of gender, nationality, etc. For that purpose, we should also accelerate the automation of the pulp and paper industry itself. We will also invest in creating a working

environment where everyone can work safely and securely with pride in what they do. Our basic stance is "What is made by Daio is sold only by Daio sales representatives." We will also enhance our intellectual property strategy so that information and knowledge accumulated on the ground about various matters will be shared among staff seamlessly and leveraged to develop intellectual property, including patents.

In May 2021, we declared our support for the TCFD recommendations, and we have since worked to disclose information in line with those recommendations. Disclosure itself is very important, but I believe that the process of discussions in preparation for disclosure is also significant as it serves as a starting point for drastic reforms in the way we define business opportunities and the resilience of our businesses. I recognize that we are facing various challenges and risks concerning decarbonization, water resources, resource procurement from abroad, and the 2024 problem in Japan regarding logistics. However, I hope that we will transform such risks into opportunities by addressing them with a positive attitude. I estimate that, from the 5th MTBP, we would have to allocate a quota of about 30 billion yen to environmental investment for each three-year period.

Vision for shareholder return

In recognition of offering return to shareholders as one of our top priorities, we have adopted a basic policy of continuing stable dividend payments while taking into account our financial results, the need to increase internal reserves, and other factors. Since FY2021, we have begun

to use the dividend on equity ratio (DOE), which shows the ratio of the amount of dividends to equity, as an additional indicator. The DOE for FY2021 was 1.5%. We will maintain stable dividend payments for the long term while aiming to raise the ratio to 2.0% in the medium to long term.

Message to stakeholders

Under the 1st to 3rd MTBPs, we continued to grow while implementing various structural reforms. In FY2021, the first year of the 4th MTBP, we successfully kept to the plan. In FY2022, even in face of the massive impact of a rise in raw material and fuel prices and other factors, we will take them on as challenges to overcome and relentlessly work to increase our corporate value toward the 5th MTBP. We look forward to continued support from our stakeholders.



Toward Successful Implementation of the Fourth Medium-Term Business Plan

Paper & Paperboard Unit

Newsprint and Paper Business Group

• Message from the General Manager of the Business Group

We will continue to work to shift to new product types and ensure profits by providing products that can help resolve social issues while keeping each machine in full operation.

Tetsuya Kawabata

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



Future vision of the Newsprint and Paper Business Group

Against the backdrop of digitalization and a shift to paperless work and lifestyles, demand for graphic paper, which the Newsprint and Paper Business Group handles, has been declining. It is predicted that the market will continue to shrink by about 5% per year. Amid such situational changes, we have continued to shift the use of advantageous pulp transported in slurry form through the pipes at the Mishima Mill to the types of products for which demand is likely to grow, with the aim of making Company-wide structural shifts while maintaining a stable supply of newsprint and paper. We will continue to boost sales of such products while concentrating newsprint and paper production in one location to keep our machines in full operation in order to offset the impact of declining demand on our business and maintain profits. While domestic demand for graphic paper continues to shrink and competition intensifies, we will safeguard our interest and emerge as a survivor in the industry by shifting to highly profitable product types while maintaining stable product supply.

Our strengths and challenges

The strengths of our business group lie in its product lineup based on pulp with competitive advantages from the Mishima Mill and its ability to sell out products manufactured with paper machines that are always in full operation, enabled by product-mix shifts through cross-business-group machine conversions, and thereby increase profitability. As part of the structural reforms we embarked on during the 1st MTBP period, we relocated the N3 paper machine at the Kani Mill to Iwaki Daio Paper and converted it into a containerboard machine. Under the 3rd MTBP, to utilize our production facilities at the Mishima Mill more effectively for the production of product types for which demand is more likely to grow, we converted the N7 paper machine into a containerboard machine, while stopping machine No. 16 and converting it into a paper towel machine. Under the current 4th MTBP, we are working to convert machine No. 15 at the Mishima Mill into a fluff pulp

production facility. We have ensured our sales and profits in the face of a decline in paper demand by converting paper machines at the Mishima Mill, which boasts high production efficiency and great competitiveness, into machines for products that are likely to be highly profitable.

Unlike other paper manufacturers, Daio Paper is engaged in manufacturing a wide range of products, from newsprint and paper to packaging and wrapping paper, including containerboard and corrugated containers, as well as household paper and absorbent products, which the Home and Personal Care (H&PC) Business Group is in charge of. Through cross-departmental collaboration, we can leverage that strength to market to our customers such a wide variety of products. Moreover, integrated operations that include even our subsidiaries have enabled us to propose total solutions, from papermaking upstream to printing downstream, to fulfill all of our end-users' needs. This is one of our major differentiating factors in terms of sales and marketing.

Meanwhile, I recognize that the key to overcoming the major problem of a decline in domestic paper demand will be to allocate limited management resources to growth fields in a timely manner by such means as organizational restructuring. In addition, while our Mishima Mill has one of the largest production capacities of any paper mill in the world, decarbonization of the mill is an important challenge we must tackle amid the growing urgency of climate change. The Japanese government has pledged to achieve carbon neutrality by 2050, and we have been implementing initiatives to become carbon neutral by 2050 according to schedule. However, there is public concern that the target year of 2050 is too late. Therefore, I recognize the need to carry out our initiatives with an eye to phasing out our use of coal earlier than initially scheduled.

Views on the current market environment (opportunities and risks)

Even amid a continuous decline in demand for newsprint and paper, the public need for products that can contribute to the achievement of the SDGs is growing. We will accelerate our



• Development of the product lineup

The Paper and Paperboard Business Group has launched bright white, high-opacity paper products for catalog and pamphlet uses, including Utrillo L White and Utrillo L White Matte, and has also broadened its lineup of eco-friendly products. For example, some self-adhesive paper products are recyclable because we have switched to using water-soluble adhesives. We also make use of waste such as old rice and tea leaves to produce mixed-pulp paper. Moreover, amid the COVID-19 pandemic, Daio Paper launched not only antibacterial film but also New OA Paper Type H: COVID-19 Tasukeai-no-wa+, sales of which were partly donated to Japan Committee for UNICEF to help companies and households using copy paper to fulfill their hopes of protecting children around the world. Furthermore, a part of the sales of KININARU-KAMI, a copy paper product containing pulp derived from thinned wood, is contributed back to various Japanese prefectures, such as Kumamoto, Ehime and Osaka, as funds for thinning, which is a necessary practice to conserve forests. Although the Newsprint and Paper Business Group is planning to make price revisions again in the fall of 2022, after the spring of the same year, to pass on the increase in raw material and fuel prices, the business group aims to gain a superior position in the market by launching a wide variety of high-value-added paper products that other companies cannot provide, such as the easy-to-use, high-opacity Utrillo L Gloss Matte.

structural shifts through the development of new eco-friendly products while focusing on providing alternatives to plastic products and laminated paper. We are also working on various initiatives with the aim of achieving carbon neutrality by 2050, and we are ahead of other paper manufacturers in terms of commitment to achieving the carbon neutrality of the entire region of where we operate in, as seen in our activities with the Shikokuchuo City Carbon Neutrality Council. Stronger public awareness of environmental issues is likely to provide us with greater business opportunities.

Meanwhile, I recognize the so-called year 2024 logistics problem, that is, the expected risk that logistics costs will rise in Japan from 2024 onward due to overtime regulations to be newly imposed on truck drivers as part of work-style reforms, which will necessitate workarounds such as the construction of relay logistics bases. Under interrelated circumstances, such as the recent rise in raw material and fuel prices and our efforts toward carbon neutrality, we will adopt proactive measures to address this problem, including switching our transportation means from trucks to ships and reconsidering our transportation scheme.

friendly products, such as paper made from recovered paper, paper materials that can replace plastic materials or laminated paper, water-disintegrable self-adhesive paper, and Forest Stewardship Council (FSC)-certified paper, while contributing to the Daio-Group-wide efforts to decarbonization mainly at production bases, in order to contribute to the achievement of the SDGs.

In addition, we will share our vision of the Three Well-beings of Hygiene, Life and Regeneration with agencies and distributors by holding study meetings and other events, in order to gain their understanding of the Daio Group's commitment to achieving the SDGs throughout the supply chain.

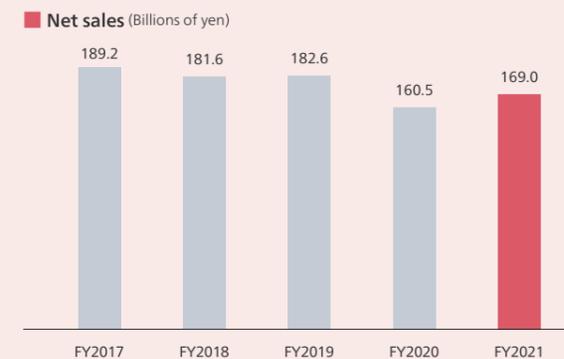
Business results for FY2021

For FY2021, the Newsprint and Paper Business Group achieved a year-on-year increase in both sales volume and amount, resulting in net sales of 169.0 billion yen. The main factor behind the results was increased demand for paper for advertising use, including leaflets, which reflected recovery from the previous year's stagnated economic activities due to the COVID-19 pandemic.

However, in FY2022, with growing instability of the international situation due to the Russian invasion of Ukraine, the disruption of international logistics, and the continuing rise in resource prices, we are facing major economic uncertainty, as well as a high likelihood of a further shrinking of the entire paper market. Adding to this difficult situation, a rapid increase in raw material, fuel, logistics and other costs due to the rise in prices of crude oil, coal, etc. is predicted to make our business environment unprecedentedly harsh. Furthermore, we are currently witnessing a very rapid depreciation of the yen. On the basis of the current level of raw material and fuel prices, an increase of one yen in the USD to JPY exchange rate has a negative impact worth approximately 0.6 billion yen on Daio Paper. Therefore, we forecast that the current trend in foreign exchange rates will have a massive adverse impact on our performance.

Resolving social issues through our business

Our business group will continue to provide environmentally



Paper & Paperboard Unit Industrial Paper and Containerboard Business Group

• Message from the General Manager of the Business Group

Aiming to boost sales of wrapping and packaging paper as a growth engine against the backdrop of a promising start to containerboard exports and the current trend toward plastic-free lifestyles

Atsushi Ishida

Director, Managing Executive Officer
General Manager of Industrial Paper and Containerboard Business Group,
Paper & Paperboard Unit



Future vision of the Industrial Paper and Containerboard Business Group

The Industrial Paper and Containerboard Business Group deals in wrapping and packaging paper, including containerboard, corrugated containers, wrapping paper, and functional paper. Although we are unlikely to be able to avoid the future impact of the decline in the Japanese population, we have thus far achieved relatively good sales. Amid the ongoing shrinkage of the domestic paper market, we focus on continuing to boost sales in our business group as a growth engine of Daio Paper. It is said that the act of wrapping things with paper embodies the unique Japanese culture of handling things with great care—care that goes beyond consideration for the protection of the contents—as a way of showing their appreciation to delight the recipient. The Daio Group's management philosophy is "Shaping an abundant and affable future for the world." To help people express their hope of an "abundant and affable future" for others through wrapping and packaging, we will propose high-value-added solutions in both design and functional terms. I believe that it is especially meaningful in this digital age to develop and hand down the paper wrapping and packaging culture, which connects the hearts of people to each other, with the aim of contributing to people's better lives.

Our strengths and challenges

One of Daio Paper's strengths lies in its wide lineup of wrapping and packaging paper—from lightweight paper with a weight of 5 g/m² to heavyweight paper with a weight of 1,000 g/m²—apt for making products from shopping bags and secondary packages for food, to corrugated containers and cement sacks. In addition, the Company's ability to propose total packaging solutions to each customer through integrated operations across divisions also helps differentiate it from the competition. Corrugated boards are made of three layers: two layers of linerboards and a layer of a corrugated medium in-between. Daio Paper is the only Japanese paper manufacturer that can offer one-stop delivery of containerboard of all these types from a single mill, being capable of high-mix, low-volume manufacturing and delivery. The Company is also

the only Japanese paper manufacturer that has high-resolution printing facilities suitable for decorative printing on linerboard. It has the fourth largest manufacturing capacity for both containerboard and corrugated containers and the second largest manufacturing capacity for wrapping and packaging paper in the market. We are proud that our product range, from lightweight paper to heavyweight paper and functional paper, is among the broadest in the industry.

Meanwhile, despite progress in other major paper manufacturers' efforts to integrate paper production and conversion, Daio Paper has no bag-paper converting company among its direct subsidiaries, although the Group includes corrugated-container converting companies. I recognize that, since progress in the operational integration has caused a decrease in the number of independent converting companies, we must tackle the challenge of building a network, including a loose alliance in view of M&A, with independent bag manufacturers.

Views on the current market environment (opportunities and risks)

I recognize marine plastic pollution as one of the issues we must tackle urgently. I also recognize that heightened expectations for paper as a natural material against the backdrop of an accelerating global trend toward plastic-free lifestyles have provided us with a valuable business opportunity. Meanwhile, in parallel with a predicted increase in demand for corrugated containers and other packaging materials due to the growth of e-commerce, there is a growing trend toward the simplification of packages. We have identified the risk that the development of on-demand packaging systems designed to optimize packages will cause a decrease in the usage of packaging paper on a weight basis.

Resolving social issues through our business

Since wrapping and packaging paper is a material related to logistics, I do not believe that selling it marks the end of our responsibility. Rather, I believe that our streamlined operation, including post-sales logistics concerning the recovery of used paper, will contribute to sustainability. An increasing number of initiatives to streamline logistics, such as joint

Fulfilling Our Purpose

—Value Creation Story of the Daio Group—

Achieving Sustainable Growth

—Strategy for Continuing to Provide Value—

Responding to Social Issues

—Foundation for Sustainable Growth—

Data and Information

—Financial and Corporate Data—

Major products



elipla

[Eco-friendly products]

Elipla series, a new brand of the entire range of products that contribute to plastic-free and low-plastic lifestyles



FS Elipla+ used for RAINGUARD+ from Nippon Notebook Corporation

Elipla stir stick used by Doutor Coffee Co., Ltd.



• Development of the product lineup

The Industrial Paper and Containerboard Business Group aims to boost sales of containerboard, its key product, by leveraging its capability to offer one-stop delivery of containerboard of all types from a single mill. It has also made significant progress in commercializing functional paper products intended to replace plastic products. The business group will devote further efforts mainly to proposing and boosting sales of the following products that can help reduce the use of plastic: the Elipla Premium Series stir stick made of high-density heavyweight paper, which is aimed at contributing to a plastic-free lifestyle; the FS Elipla Light secondary packaging material for food, where one of the layers of film has been replaced with a layer of paper; and the FS Elipla Heat-Seal.

In 2020, the N7 paper machine at the Mishima Mill was converted into a containerboard machine to manufacture containerboard for export to China and Southeast Asian countries. Due to difference in the condition of paved roads and the expected transportation distance, the required quality of corrugated containers varies between Japan on the one hand and China and Southeast Asian countries on the other. Pulp slurry piping and feeding equipment at the Mishima Mill presents an advantage in manufacturing linerboards with high burst strength suitable for export.

delivery initiatives, have been succeeding. Business activities with full consciousness of the sustainability of logistics and other processes have resulted in an improvement in profit.

To achieve decarbonization, Daio Paper is striving to phase out its reliance on coal. Provided that we develop effective solutions to the issue of CO₂ emissions from production processes, it is highly likely that the Industrial Paper and Containerboard Business Group will continue to be blessed with greater business opportunities against the backdrop of the public trend toward plastic-free lifestyles.

While demand for both types of paper continues to decline, it should be noted that the ratio of graphic paper to industrial paper for packaging applications was formerly 6 to 4, but in 2020, demand for industrial paper exceeded that for graphic paper. We are exploring new demand for paper of novel kinds, including paper that can meet the need for plastic-free products, in order to fill the gap left by paper of conventional kinds, which formerly accounted for an overwhelming share of the market. I hope that Daio Paper will contribute to the growth of the entire pulp and paper industry by creating new businesses.

Business results for FY2021

For FY2023, the final fiscal year of the 4th MTBP, the Industrial Paper and Containerboard Business Group has set the target of achieving net sales of 173.0 billion yen, including 60.0 billion yen coming from the

■ Net sales (Billions of yen)



corrugated container business, which is expected to grow both in Japan and abroad. In FY2021, the corrugated board business established an all-time sales record on both a volume and a monetary basis. Sales in the export business also grew strongly due to our products' quality advantage and the establishment of effective production and delivery systems, as shown by the fact that the monthly production volume of the N7 machine at the Mishima Mill, which had been converted from a paper machine to a containerboard machine, reached a record high, exceeding 32,000 metric tons, in March 2022. Our share of the containerboard market increased significantly as a result of our capture of rapidly growing overseas markets. We also increased our share of the wrapping and packaging paper market by leveraging our ability to propose total packaging solutions underpinned by our wide product lineup and integrated operations, thereby taking steady steps toward capturing the highest market share within the next several years. Since we are currently under the massive impact of the rise in material and fuel prices, despite achieving sales growth on both a volume and a monetary basis, we have decided to revise our selling prices twice in a year, in the spring and fall of 2022. We are working to increase our sales volume and ensure profit while obtaining customers' consent to a price hike.

In FY2021, the first fiscal year of the 4th MTBP, we focused on enhancing our downstream business and conducting integrated operations. In particular, I recognize that our initiatives to integrate operations in the corrugated container business and the wrapping and packaging business, including staff exchanges, reorganization, and employee education, have made remarkable achievements. In FY2022, we will devote efforts to increasing profits from our business group by further sophisticating our paper converting techniques, launching more converted products and thereby enhancing the added value of products. We will also work on the major operational theme of "shifting from a B2B business to a B2C business" to capture end-consumer needs behind our B2B business and consider the next step we should take while building a network, possibly a loose alliance, with converting companies. We focus on reforming our operational style and improving our strength under the 4th MTBP, with a view to increasing our sales as an engine for further growth through aggressive capital investment and M&A.

Home & Personal Care Unit Domestic Business Group

• Message from the General Manager of the Business Group

Leading both solutions to social issues and Daio Paper's growth by fully leveraging the strong presence of the Elleair brand

Hiroyuki Shidara

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



Future vision of the H&PC Domestic Business Group

As Daio Paper's growth engine, under the next 5th MTBP, the H&PC Business will be a core source of the Company's consolidated sales and lead its growth through business expansion. Our Elleair brand of household paper products (facial tissue and toilet tissue) in particular has won great public recognition and trust as a high-quality brand, and has maintained the largest share of the Japanese market.* We will leverage the strong presence of the brand to enhance our absorbent products business (diapers and sanitary napkins) and thereby strengthen the entire business group. In addition, amid drastic situational changes, including the rise in material and fuel prices, as a leader of the household paper product industry, we will work to stabilize selling prices and continue to implement initiatives to make a significant contribution to the entire industry. Meanwhile, we are working on the challenge of maximizing profits while addressing the cost increase by clearly differentiating our absorbent products from those of our competitors, and creating new value for the market.

* Source: Intage SRI+, tissue sanitary paper market (facial tissues, toilet tissues, and kitchen towels), April 2021 – March 2022, cumulative total sales by manufacturer

Our strengths and challenges

One of Daio Paper's strengths lies in widespread public awareness of Elleair as a high-quality brand, which has been achieved through the Company's exceptionally strong capacity to supply and sell household paper products based on its production system that can meet various market needs. I believe that the strong brand presence of Elleair helps to increase the effectiveness of marketing and promotion activities while lowering the cost thereof, and it could also be leveraged for other product categories, including absorbent products.

Meanwhile, I recognize that we still have to address certain challenges, including improving the imbalanced locational distribution of factories of converted products, and minimizing risks in material procurement and supply in the event of an

emergency. For the former, we will enhance our production facilities in anticipation of an increase in our share of the market for converted products. To reduce procurement risks, we will insource the manufacture of meltblown nonwoven fabric and fluff pulp, and diversify our suppliers.

Views on the current market environment (opportunities and risks)

In widespread environmental conservation efforts to replace plastic with other materials, the value of paper as an alternative to plastic has begun to be publicly recognized again. Daio Paper is one of the companies that is actively committed to recycling not only paper but also diapers. I believe that our commitment to realizing a circular economy will provide us with new business opportunities in the future. Although the rapid depreciation of the yen we are currently witnessing is a headwind for production, there is a growing demand for domestic products due to a decreased supply of imported paper products. I recognize this as a favorable opportunity for us to increase our market share and demonstrate our competitive advantages. Moreover, we predict that the habit of wiping down surfaces, which has spread widely due to consumers' heightened consciousness of hygiene amid the COVID-19 pandemic, will continue and even take root. The increased use of paper towels and sanitizing wipes will also offer us greater business opportunities.

Meanwhile, amid the shrinkage of the paper market—especially the market for printing paper—due to the progress of digitalization, several competitors that have dealt in printing paper as their main business have announced that they will enter the household paper market. Therefore, we predict that competition in the household paper industry will become even fiercer in the coming two to three years. In the household paper category, where Daio Paper is the industry leader, we will work to stabilize our selling prices and maintain our profitability in the face of risks entailed by situational changes, including the ongoing rise in material and fuel prices and logistics costs.



• Development of the product lineup

The Domestic Business Group of the Home & Personal Care (H&PC) Unit deals in and strives to enhance not only the Elleair-brand toilet tissue and facial tissue, which account for nearly 30% of the relevant Japanese market, but also sanitizing wipes, paper towels and masks, for which demand has grown amid the COVID-19 pandemic. It also devotes efforts to developing products using Daio Paper's proprietary R&D technology, such as the Kirekira! Toilet Cleaning Wipe series, the world's first such product series containing Cellulose Nanofiber (CNF), a plant-based natural material. The business group has also recently launched various collaboration-based products designed to embody inspiring messages. In addition to disposable baby diapers featuring a Disney design, in FY2021 it launched the elis COMPACT GUARD sanitary napkins with a colorful design created in collaboration with a brand under the direction of the photographer and film director Mika Ninagawa, who agreed with Daio Paper's hope of helping ease the sufferings and pain women experience during their periods. Moreover, in June 2022, disposable adult diapers in an underwear-like color, developed jointly with Wacoal Corporation, were launched with the aim of helping users overcome any emotional hurdles or embarrassment preventing them from wearing diapers.

Resolving social issues through our business

We are currently experiencing drastic changes in the social environment and consumer preferences, so we should change our products and our ways of thinking. We are striving to provide solutions to the many social issues that Japan is now facing, while significantly changing our direction toward a stronger commitment to achieving carbon neutrality and the SDGs. For example, against the background of the rapid aging of the Japanese population, there has been growing public concern about both elderly carers and young carers in the field of caregiving for elderly people. We hope to help reduce the burdens on such carers by providing our disposable adult diapers and other products. In addition, with period poverty becoming a focus of global concern, in 2022 Daio Paper launched the "meet my elis" project, which includes a program whereby the Company will provide 2,000 students who menstruate with elis-brand sanitary napkins free of charge for one year. Although we had to limit the number of recipients of free sanitary napkins, we have offered napkin coupons to all student applicants through their schools, and those applicants can use the coupons at stores near their schools. We hope that our efforts will help resolve the issue of period poverty.

From the perspective of reducing plastic in products, under the Kirekira! brand, we have launched products whose containers use a smaller amount of plastic than previous containers and Japan's

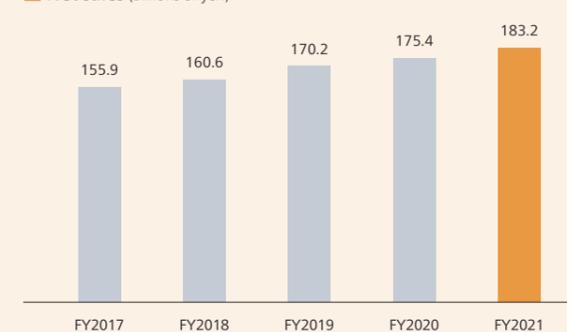
first toilet cleaning wipes in a paper package. We are also preparing to replace plastic packages for other products, including sanitary napkins, with paper packages. Furthermore, we target to replace 60% of packaging materials with recycled plastics and biodegradable plastics by the end of the 5th MTBP period.

Moreover, Daio Paper is working to recycle used disposable diapers, which are now mostly disposed of and incinerated as they are. We have thus far managed to use materials recovered from used disposable diapers as fuel or building material, but we have also launched a joint research project to develop a technology for recycling used diapers into more valuable materials, with a view to constructing a diaper recycling plant in the future. We are planning to insource the manufacture of fluff pulp, an absorbent material for disposable diapers, from July 2023. We are looking to mix pulp recycled from used disposable diapers into our in-house fluff pulp, hoping that it would accelerate our efforts toward horizontal recycling, or the recycling of used products into the same kind of product.

Business results for FY2021

For FY2021, the Domestic Business Group of the H&PC Unit achieved net sales of 183.2 billion yen, an operating profit of 15.5 billion yen, and an operating margin of 8.5%, setting all-time records in both net sales and operating profit. For FY2023, the final fiscal year of the 4th MTBP, the business group has set the target of achieving net sales of 225.0 billion yen, an operating profit of 23.0 billion yen, and an operating margin of 10.2%. However, we predict that, in FY2022, we will face serious difficulty increasing operating profit due to the rise in raw material and fuel prices, while net sales will continue to grow. If we have to pass on the cost increase to consumers by hiking selling prices, I believe that we should also increase the added value of the products themselves when doing so. Since the start of the 4th MTBP period, we have launched many products to achieve the target of having new products account for 30% or more of net sales, and we will continue to do so. We are also planning to launch a new business in a field derived from the existing household paper and absorbent products businesses.

■ Net sales (Billions of yen)



Home & Personal Care Unit Overseas Business Group

● Message from the General Manager of the Business Group

Aiming to increase the H&PC Overseas Business's share of the entire Group's net sales to 30% by accelerating multi-category business expansion and exploring new markets

Makoto Saito

Senior Executive Officer
General Manager of
Overseas Business Group,
Home & Personal Care Unit;
General Manager of
Overseas Business Promotion
Division, Overseas Business
Group, Home & Personal
Care Unit



Future vision of the H&PC Overseas Business Group

Against the backdrop of the continuing decline in the Japanese population, the H&PC Overseas Business is positioned as an engine for the Group's future growth. We are working to expand the H&PC Overseas Business to achieve the target of ensuring that it will consistently turn a profit and account for about 30% of the Group's net sales under the next 5th MTBP. While we have so far expanded into overseas markets mainly with disposable baby diapers, we are currently accelerating our efforts to leverage a high level of brand recognition of our baby diapers for multi-category business expansion with sanitary napkins, household paper, and other products. Moreover, the Turkish-based hygiene products manufacturer that Daio Paper acquired in 2020 (currently Elleair International Turkey Kisisel Bakim Urunleri Uretim A.S.) provides hand soaps, body washes, hair shampoos, and baby oils, so we will offer products in this new category to markets outside Turkey. We aim to expand our business from the countries where we already have production bases—Thailand, China, Indonesia, Turkey and Brazil—to their surrounding countries, to help improve the local hygiene environments through people's use of Daio Group products and enable those people to lead better lives.

Our strengths and challenges

Among Daio Paper's strengths are its abilities to develop premium products and to conduct marketing activities that match local needs. No product can satisfy people if it does not conform with local customs, no matter how highly value-added it may be. The Company's ability to create products that meet local needs through trial and error has helped increase its brand power. For example, in China, when economy products were prevalent, high-quality made-in-Japan products had great appeal to local consumers. However, as local manufacturers gained technological skills, the label of made-in-Japan alone no longer gives an overwhelming advantage to any products. Based on the principle of local production and consumption, Daio Paper has focused on producing high value-added products locally by

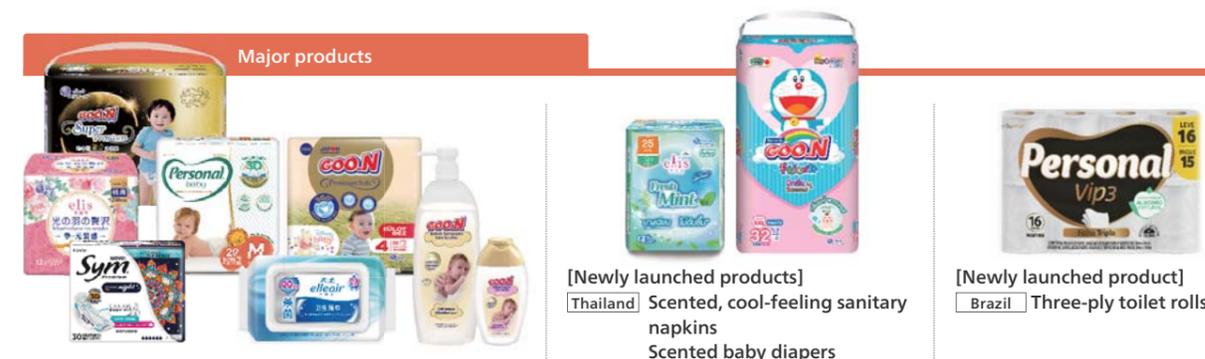
leveraging its great technological capabilities developed in Japan and cooperating with local staff in marketing activities that match local consumer trends, thereby resulting in the brand's success in taking root in the Chinese market and providing premium products.

Daio Paper's wide lineup of products includes not only facial tissue and toilet tissue but also sanitizing wipes, all of which boast a large share of the Japanese markets and a proven track record. This is a meaningful strength in our efforts toward multi-category business expansion.

Meanwhile, for the past two years, we have faced the problem of failing to align our business bases around the world with each other in terms of the speed of scaling out multi-category business operations partly due to COVID-19 lockdowns. In the markets we have recently entered in particular, travel restrictions have stagnated our business activities themselves. We will speed up our efforts to explore new markets as various COVID-19 restrictions are relaxed from now on.

Views on the current market environment (opportunities and risks)

The key to an effective sales strategy used to be getting as many products as possible onto the limited number of shelves in physical stores. As we are newcomers in every country we expand into, it is extremely difficult to secure shelf space in physical stores. However, e-commerce allows us to sell our products free of such physical limitations. The COVID-19 pandemic has raised the e-commerce penetration rate in most countries, so we will enhance our e-commerce sales by utilizing the know-how we have acquired in China, a leading country in e-commerce. On the other hand, I recognize that in addition to unforeseeable risks such as the COVID-19 pandemic, overseas businesses have inherent risks. That includes geopolitical risks and the risk of being affected by various factors such as changes in foreign exchange rates and rises in material and fuel prices. For example, with heightened geopolitical risks in Turkey, we are reconsidering our initial expectations of the destinations of exports from the country.



● Development of the product lineup for each country

In Thailand, where scented products are popular, the Overseas Business Group of the Home & Personal Care Unit launched the country's first scented disposable baby diapers in the fall of 2021. As feminine care products, whose sales are growing in Thailand, the business group has launched 42-cm-long night sanitary napkins, disposable period panties, and cool-feeling slim sanitary napkins successively since the start of FY2022. In China, the business group began to insource the local manufacture of sanitary napkins and launched premium and ultra-premium products in response to local needs. In Brazil, into which Daio Paper expanded in 2020, the business group launched high-value-added products, including sanitary napkins, disposable baby diapers and toilet tissue, by integrating the Company's excellent technologies, in addition to existing standard products. In the fall of 2022, disposable baby diaper pants will be launched to stimulate the Brazilian market. In Turkey, the only country where the Group's liquid-category products are manufactured, the business group will export liquid products to Daio Group companies worldwide for sale in their local market.

Resolving social issues through our business

I clearly recognize the very important role that the Overseas Business Group must play in realizing the Daio Group's management philosophy "Shaping an abundant and affable future for the world." Given that the Group's overseas expansion has only a short history and is still small in scale, I believe that the business group's current mission is to return profits to local communities stably in such forms as creating local employment by achieving business growth in the countries where we operate. Since these countries include many developing ones, we hope to contribute to better lives of local people by improving their living environments in terms of hygiene and convenience through the products we produce and sell.

Our ongoing specific initiatives include holding period education seminars targeting new students at universities in Thailand as an awareness-raising activity, and distributing samples of disposable baby diapers in cooperation with local healthcare centers in Indonesia to teach local people how to use disposable diapers, when to change diapers, etc., and thereby to promote the adoption of disposable baby diapers.

In China, Daio Paper has locally developed toilet tissue that disintegrates more easily in water, so that it can be flushed down even in local flush toilets characterized by low-pressure water flow. This has changed the local custom of putting used toilet tissue in trash cans and thus contributed to improving hygienic environments and

reducing waste.

At the bases of the H&PC Overseas Business, the rate of women's participation and advancement in the workplace is generally higher than in Japan. We will adopt various systems for actively supporting female staff and introduce those systems to Japan too. We hope to lead by example to inspire Group-wide efforts to increase opportunities for women to reach their full potential.

Business results for FY2021

For the final fiscal year of the 5th MTBP (FY2026), the Overseas Business Group of the Home & Personal Care Unit has set the target of achieving net sales of 300.0 billion yen and an operating margin of 10% or more, as well as increasing the ratio of overseas sales to the Group's consolidated sales to over 30%. As a milestone on the road map toward the achievement of this target, we aim to record net sales of 135.0 billion yen and an operating margin of 5.2% or more in the final year of the 4th MTBP (FY2023).

For FY2021, we achieved a net sales increase of 18% year on year, but failed to reach the operating profit target set in the current plan mainly due to the massive impact of strict COVID-19 lockdowns in ASEAN countries. Our business activities in ASEAN countries were drastically limited due to travel restrictions amid the pandemic, resulting in the suspension of our efforts to explore new markets, just when we were working to open up new sales channels toward provincial cities, given that no significant progress had been made in product distribution in those countries. Meanwhile, our plan to develop new products was implemented according to schedule. Therefore, since the fall of 2021, we have launched high-value-added products that are clearly differentiated from competitors' products into all the overseas markets where we operate. I expect that a combination of the relaxation of COVID-19 restrictions and our launch of new products will provide a springboard for us to boost our sales going forward. I also view an increasing percentage of products bought via e-commerce services amid COVID-19 lockdowns as a favorable tailwind for Daio Paper. In FY2022, in the ASEAN region in particular, we aim to become able to remain stably in the black through a sharp recovery and raise our ratio of overseas sales to around 15%.

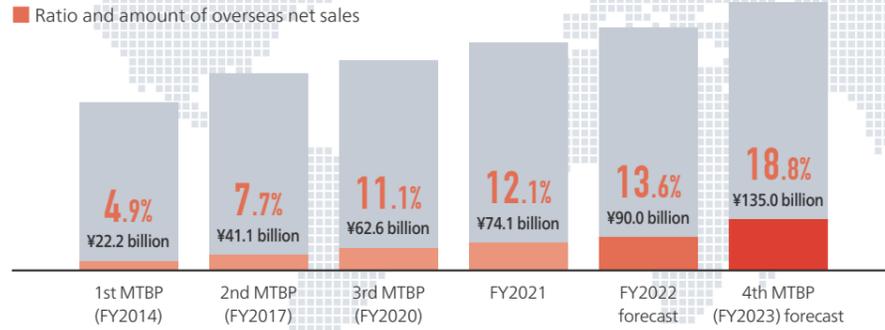
■ Net sales (Billions of yen)



Overseas Strategies and Initiatives under the Fourth Medium-Term Business Plan

Trend of H&PC Overseas Business net sales

Ratio and amount of overseas net sales



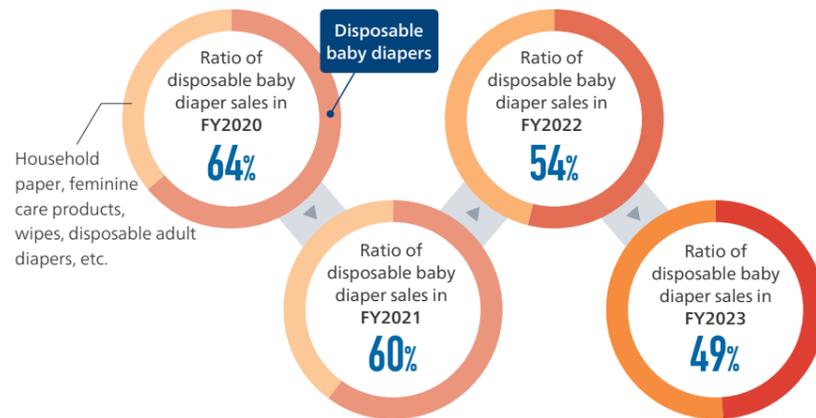
The Daio Group aims to further expand the Home & Personal Care (H&PC) overseas business as its core growth engine through multi-category business expansion in existing markets, including the Chinese market, and entry into new markets. Daio Paper will strive to accelerate its efforts to expand its overseas business through synergy with Group companies toward its expansion from Brazil and Turkey, where it has started full-scale operations through M&A, to surrounding countries.

At the peak of the COVID-19 pandemic, just as in Japan, consumers' shopping styles drastically changed outside Japan,

resulting in growth in e-commerce sales in various countries. The Daio Group leverages its strengths in e-commerce in Japan and China to enhance its e-commerce sales in other countries. It is also working to broaden the range of its products and product categories by adding new products and categories to existing ones.

These initiatives are expected to enable the Daio Group to achieve net overseas sales of 90.0 billion yen, an increase of 21% year on year, in FY2022, the second year of the Fourth Medium-Term Business Plan (MTBP).

Overseas business: Promotion of multi-category business expansion



We strive to accurately detect changes in consumer preferences and trends in sales at stores, quickly predict market trends, and leverage our capabilities to make prompt decisions and implement them in order to diversify our product lineup and increase the sales ratio of product categories other than disposable baby diapers while expanding net sales of baby diapers. We aim to raise the ratio of total sales of household paper, feminine care products, adult diapers, etc. to 51% to boost our net sales and profit.

Growth in e-commerce sales in Asia

E-commerce, that is, buying or selling products and services on the Internet, has grown in popularity mainly among young consumers. The COVID-19 pandemic and the consequent restrictions on travel and other human activities have caused drastic changes in consumers' shopping styles, resulting in further expansion of the e-commerce market.

In China in particular, Singles' Day—November 11 every year—has become not just a big event in the e-commerce industry alone but also the world's largest shopping event. We have estimated based on Nielsen data that, over 45% of purchases of disposable

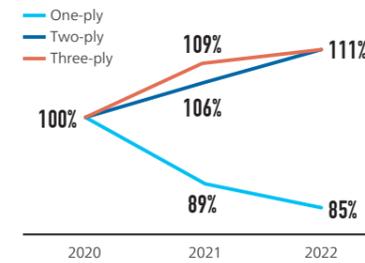
baby diapers and products in other categories that we have presence in is made over e-commerce in China. E-commerce sales of those products have also been rapidly growing in Southeast Asian countries, such as Thailand and Indonesia, against the backdrop of the COVID-19 pandemic.

We aim to boost e-commerce sales in each country by promoting our new products and high value-added products with the leverage of the presence of our brand, which we have strengthened with our disposable baby diaper business, while also distributing those products to physical stores.

Initiatives to create synergy

Brazil Business

Promoting further business expansion by boosting sales of high value-added products and taking advantage of synergetic effects. Developing and selling high value-added products by utilizing both Santher's brand power and the Daio Group's technological prowess.



Source: Nielsen data on a quantity basis

Growth rate of the Brazilian markets for one-ply, two-ply and three-ply toilet tissues (with the 2020 level as 100)



High value-added feminine care products and baby diapers



Three-ply toilet tissue

In Brazil, where consumer demand for high value-added products is growing, we have launched a premium range of feminine care products and disposable baby diapers, as well as three-ply toilet tissue, by leveraging our technological prowess. We are currently working to boost sales of those products.

We have also launched initiatives to enhance our Brazil Business and extend the coverage of our operations to surrounding countries in the future by taking advantage of the global network of Marubeni Corporation.

Business expansion initiatives through the utilization of Marubeni Corporation's global network

Survey in preparation for entry into African markets

A sales pilot of feminine care products in Kenya has been prepared with a view to product launch within 2022.

Survey in preparation for extending sales coverage in South America

A survey and examination are under way on the feasibility of the export and sale of personal care products to South American countries.

New businesses in Brazil

- A feasibility study is under way on the introduction of IoT-based feminine care product dispensers targeting offices in São Paulo.
- A feasibility study is under way on a disposable diaper subscription service targeting nursery schools in São Paulo.

Turkey Business

Expanding domestic sales and sales of exports by developing a lineup of products using the Daio Group's know-how. Boosting domestic sales by offering a multi-category lineup of products, including GOO.N-brand products.



The KOMILI Natural Tea Tree Oil series using a technology developed through the creation of olive-oil-based products has been launched under the concept of "hand-friendly antibacterial products."

Enhancement of the Turkey Business through the expansion of export sales to surrounding countries

In Turkey, we are striving to enhance domestic sales by providing high-value-added GOO.N-brand products, including baby care products and disposable baby diapers, leveraging both the high level of public recognition of the KOMILI brand, which originated in 1878, and the Daio Group's technological prowess.

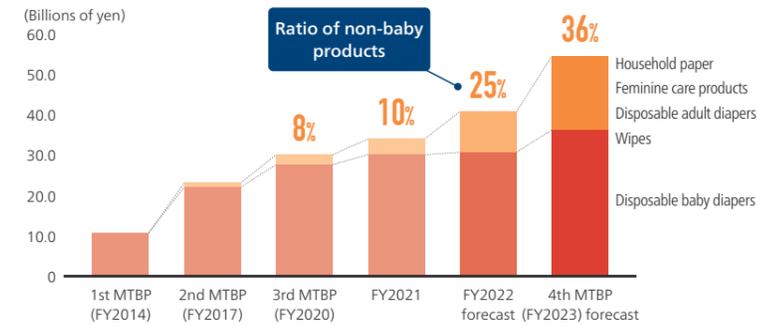
Although the Russian invasion of Ukraine has forced us to focus on domestic sales in Turkey, we aim to make a structural shift to increase the ratio of export sales to 50% or more during the 5th MTBP period.

China Business

Promotion of multi-category business expansion

Leading the growth of the overseas business through multi-category business expansion based on disposable baby diapers

Composition of China Business sales



Multi-category business expansion with feminine care products, household paper, etc.



In China, we are striving to boost sales by providing products in a wide range of categories, including household paper, whose lineup has recently been broadened, and feminine care products, which have started to be manufactured locally, by leveraging the presence of our brand and our sales channel, both of which have been strengthened through our disposable baby diaper business operations. In addition, we tackle social issues by donating disposable adult diapers to local nursing homes for the elderly and donating household paper products amid COVID-19 lockdowns, thereby earning greater public recognition.

Donating household paper and other products during Nantong City's lockdown



Strengthening the foundation for the baby diaper business



In the disposable baby diaper business in China, we aim to not only boost sales by broadening the lineup of disposable baby diaper pants, for which demand is increasing, and explore new markets in third-tier or lower-ranking cities, which account for 80% of demand at physical stores in the country, but also enhance e-commerce sales in particular. We will further increase the strength of the GOO.N brand, which is widely recognized as a high-quality brand, in order to boost sales in other categories and ensure that the China Business will be able to lead the entire overseas business.

Responding to social issues and local needs



Thailand

elis School Roadshow

We hold this event at schools to share accurate information on how to use sanitary napkins and other related subjects with local lower-secondary school students, who do not yet have sufficient knowledge about menstruation. We also provide them with samples of sanitary napkins in the hope that they can lead better student lives.

In Thailand, whose climate is categorized as a tropical monsoon climate, there has been growing interest in not only the comfortable feel of products but also their fragrance. We have launched various new products that can meet such local needs, including cool-feeling sanitary napkins, which help ease uncomfortable feeling even on sweltering days, and baby-powder-scented disposable baby diapers, with the aim of boosting sales.

Thailand

Scented, cool-feeling sanitary napkins



Baby-powder-scented disposable baby diapers

Indonesia



2-piece packages of masks

We have so far provided disposable baby diapers in single-piece packages to provide better access to this kind of product at traditional stores called "warung," which many consumers in Indonesia regularly use in their daily lives. Our lineup of masks imported from Japan amid the COVID-19 pandemic also includes a set of two masks in one package, which is intended to match local needs.

To reduce greenhouse gas (GHG) emissions from our factory, in 2021 we installed solar panels on its rooftop, thereby replacing part of the sources of the electricity the factory uses with a clean energy source. We have also installed green curtains made of climbing plants around the office building to save energy.

China

