

Overview of the Third Medium-Term Business Plan

Move on : Reform and Soar Above

To strategically transform its business portfolio and become a sustainable corporate group capable of continuous growth

Overview of the Third Medium-Term Business Plan

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"
- Increase export of containerboard and kraft paper to Asia
- Start operation of the household paper machine at Kawanoe Mill and install an additional machine

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 products
- 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 ESG initiatives

- Early commercialization of cellulose nanofiber (CNF)
- Launch of biomass power generation under the feed-in tariff (FIT) scheme (planned for July 2020)

First to Third Medium-Term Business Plans

(Billions of Yen)	1st MTBP (FY2014)	2nd MTBP (FY2017)	3rd MTBP			Long-term vision
	(FY2014)	(FY2017)	(FY2018 results)	(FY2019 projections)	(FY2020 plans)	(Outlook in 10 years)
Net sales	450.2	531.3	533.9	560.0	615.0	800-1,000
Operating profit (Operating margin)	21.8 (4.8%)	11.1 (2.1%)	12.1 (2.3%)	30.0 (5.4%)	32.0 (5.2%)	80-100 (10%)
H&PC overseas business net sales ratio	4.9%	7.7%	6.5%	6.3%	11.0%	30% or more
ROE	10.0%	2.2%	2.6%	9.0%	8.0%	12% or more
Net debt to equity ratio	1.9x	1.6x	1.6x	1.6x	Less than 1.6x	Less than 1.0x

Strengthening the Value Creation Model

Environmental

E Contribute to recycling-oriented and sustainable society by reducing environmental load

See p.45 for details

Social

S Respond to declining birthrate and aging population, coexist in harmony with local communities

See p.41 for details

Governance

G Establish sound governance structure to support sustainable growth

See p.31 for details

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.

Radical cross-business structural reform of Paper and Paperboard Business and H&PC Business

Paper and Paperboard Business: Structural reform of Paper and Paperboard Business

Make full use of Mishima Mill's "three strengths"

- 1 Kraft pulp with competitive edge
- 2 Top-class recovered paper processing technology in Japan
- 3 Location next to an international trade port

Shift from "graphic paper" to "packaging paper"

- Stable supply of graphic paper
- Strengthen production of packaging paper through increased pulp production and machine rebuild
- Strengthen cost competitiveness through the use of hard-to-recycle recovered paper

Increase export of containerboard and kraft paper to Asia

H&PC Business: Global expansion and strengthening of profitability of H&PC Business

Household paper

Domestic

Strengthen supply structure and establish dominant No. 1 market share position

- Start production with new machine at Kawanoe Mill
- Strengthen supply structure for domestic household paper market

Overseas

Expand sales of premium toilet tissue in China

- Convert parent rolls (which are produced by new machine at Kawanoe Mill) at EICN
- Expand sales of household paper in Asia

Absorbent products

Domestic

Develop products and implement initiatives to address social needs

Overseas

Expand sales area and channels of baby diapers
Accelerate multi-category expansion

- Expand sales of adult diapers, feminine care products and wet wipes

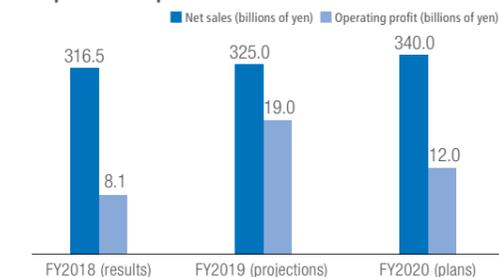
New businesses

Biomass power generation under the FIT scheme
Cellulose nanofiber (CNF)

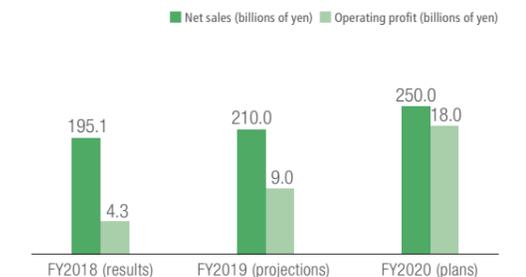
Household paper / Absorbent products
Multi-category expansion

Net Sales and Operating Profit Results and Outlook by Segment

Paper and Paperboard Business

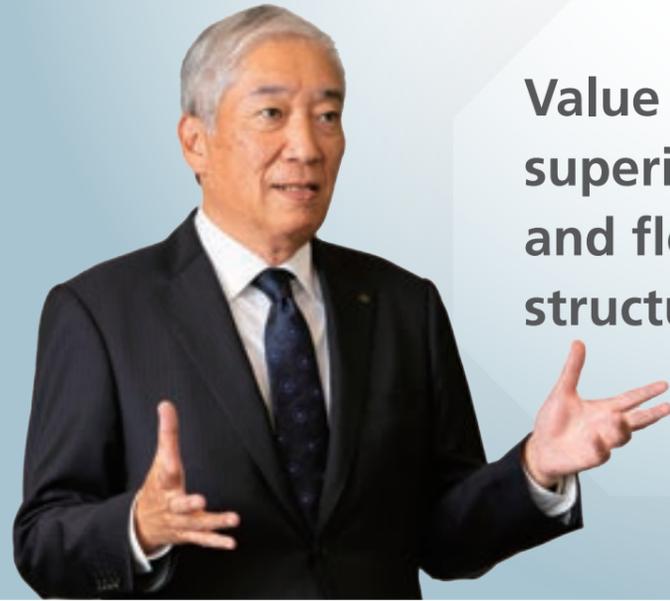


H&PC Business



Third Medium-Term Business Plan: Key Strategy 1

Structural Reform (Paper and Paperboard Business)



Value creation based on superior technical expertise and flexible production structure

Kunihiro Okazaki

Executive Vice President and Representative Director
Responsible for Sales, Resources and Materials Procurement Division and Global Logistics Division

Structural Reform (Home and Personal Care (H&PC) Business)

Establishing a dominant market position in household paper by offering high-value-added products based on a market-driven approach



Yorifusa Wakabayashi

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

Key Strategy

Shift from graphic paper to packaging paper

- Maintain stable supply of graphic paper (e.g. newsprint, printing paper, communication paper)
- Strengthen production structure and increase exports of packaging paper

Responses to environmental change and social issues

In the paper and paperboard market in Japan, demand for graphic paper is shrinking while demand for packaging paper is trending upward in line with the proliferation of the Internet and the spread of e-commerce. Under these circumstances, the Daio Paper Group is working to provide stable supply of products through a reform of its production structure in accordance with the demand for paper.

1. Terminate operation of some of the paper machines and coaters at Mishima Mill and repurpose the pulp for production of more profitable household paper
2. Maximize production at Mishima Mill by increasing in-house production of uncoated paper and by installing additional paper sheeting machines
3. Increase containerboard production capacity (rebuild a paper machine into a containerboard machine; scheduled for March 2020)

Our commitment to accomplish the Third Medium-Term Business Plan

To step up the production of packaging paper and develop paper products that contribute to the realization of a recycling-oriented society

The foundation to increase the production of industrial paper will be completed when the N7 machine at Mishima Mill is rebuilt into a paperboard machine in March 2020. Demand for packaging paper, such as corrugated containers and paper bags, is increasing worldwide and we will increase our sales of these not only in Japan but also in China and Southeast Asia. As for product development, we will increase the use of hard-to-recycle recovered paper, which had previously been disposed of as waste, and alternatives to plastic, thus contributing to realization of a recycling-oriented society.

Furthermore, as a measure to address the problem of marine plastic pollution, we are leveraging the biodegradability of paper (cellulose) to develop alternative materials that can serve as replacements for plastic, and are seeking to increase their sales as part of our efforts to contribute to the realization of a sustainable society.

Increase of paper sales as alternatives to plastic

Capitalizing on our technical expertise as a supplier of alternative materials to plastic, we will undertake product development in view of the trend toward eliminating the use of plastic and the corresponding upward trend in demand for those alternative materials. Through our business activities, we will contribute to the realization of a carbon-free society while mitigating marine plastic pollution.

Key Strategy

Domestic business: Strengthen production and sales structures for H&PC products

- Household paper: Strengthen the supply structure. Produce and sell products from the consumer's perspective and secure a dominant No. 1 market share position for the Elleair brand
- Absorbent products: Develop and launch products responding to changes in the social structure

Capture a dominant No. 1 market share position in all categories in the household paper segment by strengthening the lineup of high-value-added products

At Kawano Mill, following on from the new machine that started operation in November 2018, we will install an additional machine in 2021 to increase household paper production by 10%. We will produce competitive products using pulp supplied by Mishima Mill, one of the world's largest-scale coastal mills.

We will strengthen the product lineup of the Elleair brand, which celebrated its 40th anniversary in 2019, and secure a dominant No. 1 market share position in all categories in the household paper segment, namely facial tissue, toilet tissue, and kitchen paper.

Attune to consumer needs by offering products that meets the requirements of an increasingly diverse society

In line with the declining birthrate and aging population, we have established a diverse lineup of disposable

diapers, ranging from standard baby diapers to ultra-small diapers for low-birth-weight babies, diapers for children with nocturnal enuresis, thus reducing the burden of dual income households, and diapers for persons with disabilities or mental disorders.

We have also developed and launched products for light incontinence in an effort to enhance the quality of life of active seniors.

Moreover, in response to Japan's "Year 2025 Problem" (rise in demand for in-home nursing care), we have been taking part in the community-based integrated care systems in cooperation with physicians and care managers to help reduce the psychological and physical burden when transitioning from nursing care at hospitals or nursing-care facilities to nursing care at home.

Furthermore, as the number of patients with dementia is expected to increase to 8 million in Japan, 220 of our employees took the dementia supporter training program authorized by the Ministry of Health, Labour and Welfare and are in the vanguard of our vigorous efforts to raise awareness and understanding of dementia.

Our commitment to accomplish the Third Medium-Term Business Plan

Continue to offer comfort through product development from the consumer's perspective

Adhering to the management philosophy, "Shaping an abundant and affable future for the world," we will work to deliver products that are market-driven, not product-driven, to as many consumers as possible. We are resolved to develop and launch home and personal care products that enrich consumers' lives by delivering greater comfort.

Moreover, as the leading manufacturer of household paper in Japan, we are mindful of our responsibility to ensure a stable supply of high-quality products.

Third Medium-Term Business Plan: Key Strategy 2

Global Expansion and Strengthening of Profitability of the H&PC Business

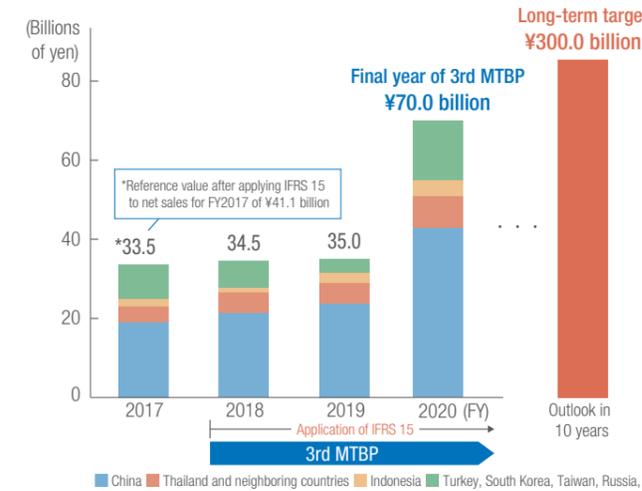


Locally-oriented business development to increase market share

Toshiki Yamagami

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

Net Sales by Country



Strategy by region

- China**
 - Increase sales of super premium baby diapers
 - Promote multi-category business expansion of household paper and adult diapers
- Thailand and neighboring countries**
 - Strengthen sales of baby diapers in the Indochinese peninsula and promote multi-category business expansion of feminine care products and household paper
- Indonesia**
 - Strengthen sales of baby diapers at traditional shops and at stores on EC platforms in addition to sales expansion at supermarkets and minimarts
- Turkey, South Korea, Taiwan, Russia, etc.**
 - Develop products that meet each region's needs and accelerate multi-category business expansion

Key Strategy

Long-term vision of increasing net sales ratio to 30% (current level: approx. 8%)

- Build brand strategy based on the local production for local consumption model**
Established production and sales companies in Thailand (Amata City) in 2011, China (Nantong City) in 2012, and Indonesia (Cikarang) in 2014
Construct a second factory in China and study the feasibility of opening a second factory in Indonesia and a factory in Turkey
- Accelerate multi-category business expansion**
Increase sales through product diversification (household paper, feminine care products, etc.) by leveraging the brand power of our premium quality baby diapers
- Accelerate export sales**
Increase export sales to South Korea, Taiwan, Russia, Turkey, etc., further grow sales territory, and accelerate multi-category business expansion

Business Strategy for Household Paper

Accelerate multi-category business expansion

- Install new converting machine at Elleair International China (Nantong) Co., Ltd. (EICN)
Convert household paper at EICN and sell from EICN
- Capitalize on the brand power of baby diapers to develop premium toilet tissue market**
- Accelerate multi-category business expansion**

Business Strategy for Absorbent Products

Promote the local production for local consumption model and accelerate multi-category business expansion

- Install more baby diaper machines
Increase sales of premium products
- Develop products that meet each country's needs
Expand sales territory
- Proactively approach traditional shops and open up stores on EC platforms
Expand sales channels
- Increase sales of household paper, feminine care products, and adult diapers
Accelerate multi-category business expansion

Changing business environment and social issues throughout Asia, where there is rapid economic growth

The Daio Paper Group recognizes the following changes in the business environment and social issues in China and other regions in Asia which are undergoing rapid economic growth.

- Increasing quality requirements for household paper products and absorbent products (comfortable-to-use, safe, and hygienic)
- Shift of needs toward premium baby diapers in line with economic growth
- Population aging in China, South Korea, and Taiwan
- Change in the product demand structure in line with the "Toilet Revolution" led by the Chinese government (increase in flush toilets, and improvement in sanitary conditions)
- Reduction of household and industrial waste
- Expansion of product choices to cater to the cultures and customs in each country

It is expected that the population trends in China, South Korea, and Taiwan would come to resemble

Japan. In these countries with aging population, we seek to respond to the increasing demand for products that support healthy aging.

Expansion of product choices with products developed to cater to the demographic profile, culture, and customs of each country

The Daio Paper Group expands its business based on the local production for local consumption model. As an enterprise dedicated to manufacturing, we regard it as our mission to minimize the environmental impacts of local production. Through environmentally friendly manufacturing, we will contribute to the enhancement of the quality of life (QOL) in accordance with the circumstances of each country.

In addition to increasing super premium zone product offerings to answer to the culture and customs of each region and business format, we also started promoting and selling our baby diapers and premium toilet tissues together as a set and undertake the premium strategy for household paper.

Our commitment to accomplish the Third Medium-Term Business Plan

Establishing our sales structure and expanding the product lineup while showing respect for the culture and customs of each country

As with the Domestic Business Group of the Home & Personal Care Unit, we adhere to the management philosophy, "Shaping an abundant and affable future for the world," and strive to enhance customer satisfaction locally by listening attentively to the opinions of retailers and consumers and monitoring the usage situations of our products.

In FY2020, the final year of the Third Medium-Term Business Plan, we will work to establish sales structures attuned to consumer needs (increase in the retail store coverage, prevention of stockout at stores by shortening the delivery time and securing a sufficient amount of stock) while expanding the product lineup based on the local production for local consumption model so as to enhance satisfaction of local consumers.

Over the long term, we will conduct market research of the Middle East and North Africa (MENA) area as well as South America and South Asia (India, Pakistan, and Bangladesh), which are large markets that we have yet to fully enter, with a view to improving the Quality of Life of these potential customers and shape an abundant and affable future for them.

Third Medium-Term Business Plan: Key Strategy 3
New Businesses and ESG Initiatives



Realize early commercialization of advanced materials for a sustainable society

Takashi Ono

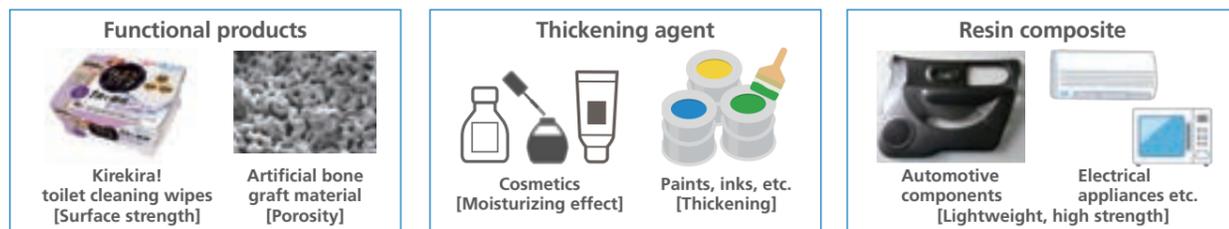
Director and Managing Executive Officer
 Responsible for Production Unit;
 General Manager of Production Division

Key Strategy

Early commercialization of "ELLEX" cellulose nanofiber (CNF)

- Expand the lineup of CNF to meet diverse user needs
- Accelerate development of applications and mass-production plans for the commercialization of CNF

We are broadening the application fields for cellulose nanofiber (CNF) by capitalizing on its lightweight property and strength. We are developing ELLEX-M, our molded sheet type CNF, to be applied as a component of a high-performance table tennis racket, and as body panels of electric vehicles, which are required to be lightweight.



Examples of application development

Provision of CNF molded sheet (ELLEX-M) for a race car

We provided ELLEX-M for use as a material for the components (hood, rear doors, etc.) of an electric race car of the SAMURAI SPEED team. The electric race car participated in the 97th Pikes Peak International Hill Climb, a motorsport event held in Colorado, USA, and ELLEX-M received excellent ratings.



ESG Initiatives to Lay a Foundation for Value Creation

E nvironment

See p. 45 for details

Contribute to Realization of a Recycling-Oriented and Sustainable Society through Reducing Environmental Load

- Establishment of the "Daio Global Environment Charter" and initiatives based on it
- Carbon dioxide emissions reduction initiatives, such as the effective utilization of hard-to-recycle recovered paper, energy saving, and waste reduction
- Forestry business in Chile
- Environmental accounting and material flow accounting to monitor the Group's impact on the environment
- Biomass power generation under the FIT scheme (planned for July 2020)
- Logistics reform through consolidation of logistics operations to large-scale logistics centers, etc.



Conceptual rendering of the biomass boiler that uses byproduct from the pulp making process



Improvement of infrastructure by building public roads and bridges within the Group's forestry property in Chile, South America

S ocial

See p. 41 for details

Respond to Declining Birthrate and Aging Population; Coexist in Harmony with Local Communities

- Improvement of the infrastructure at the Group's overseas forestry property (Chile)
- Support for in-home caregivers by providing a continence care app through Medical Care Station, a medical and nursing care social media platform, within the framework of the Community-based Integrated Care Systems promoted by the Ministry of Health, Labour and Welfare
- Stress-free nursing care
- Creation of a workplace environment that offers employees challenges and growth potential (health and productivity management, diversity management, human resource development)
- Sponsorship of the child-rearing support projects of Shikokuchuo City, Ehime Prefecture
- Operation of "GOO.N Sukusuku House," a facility for employer-provided childcare services

G overnance

See p. 33 for details

Establish Sound Governance Structure to Support Sustainable Growth

- Evaluation of the effectiveness of the Board of Directors (incorporate third-party opinion into the composition and operation of the Board of Directors)
- Enhancement of the corporate governance structure with the establishment of the Remuneration Committee and the Nomination Committee
- Review of the risk management framework and determination and implementation of concrete risk control measures according to the type of risk by the Compliance Committee

Issuance of the first-ever green bond in the Japanese papermaking and daily necessities industries in October 2018

Daio Paper issued green bonds amounting to ¥20.0 billion in October 2018. Green bonds are bonds issued to procure funds for capital expenditures, etc. necessary for engaging in projects that have high environmental improvement effects (green projects).

- Daio Paper's green bonds support two initiatives that qualify as green projects.
- 1) Facilities related to the effective utilization of hard-to-recycle recovered paper → CO₂ reduction attributable to waste reduction (Raise the ratio of hard-to-recycle recovered paper used in containerboard production to 30%)
 - 2) Biomass boiler that uses black liquor as fuel (under the FIT scheme) → CO₂ reduction attributable to supply of carbon-free electricity

FY2018 Results

- 1) Amount of CO₂ reduction attributable to effective utilization of hard-to-recycle recovered paper
 - Collection of hard-to-recycle recovered paper: 153,589 tons/year (initial plan: 144,725 ton/year; usage ratio in containerboard production: 13.1%)
 - Amount of CO₂ reduced: 51,397 t-CO₂/year (compared to the FY2016 total for Mishima Mill and Iwaki Daio Paper)
- 2) FIT biomass boiler under construction
 To be completed on schedule in July 2020

FY2020 Targets

- 1) Amount of CO₂ reduction attributable to effective utilization of hard-to-recycle recovered paper : 320,000 t-CO₂/year
- 2) Amount of CO₂ reduction attributable to the FIT biomass boiler : 253,743 t-CO₂/year from generation of 62,920 kW of electricity

