

2nd Medium-term Business Plan (FY2015-FY2017)

Step-up ~ Leap and Expand

28 May, 2015

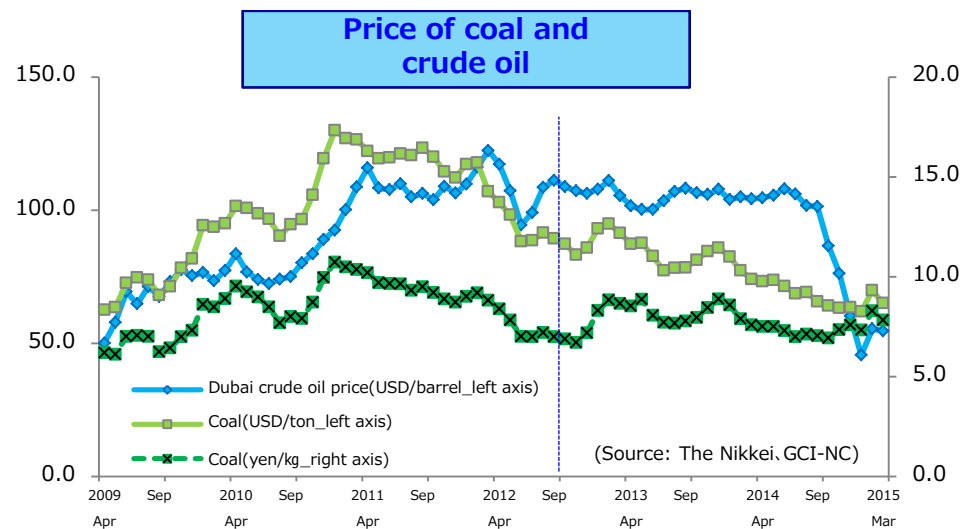
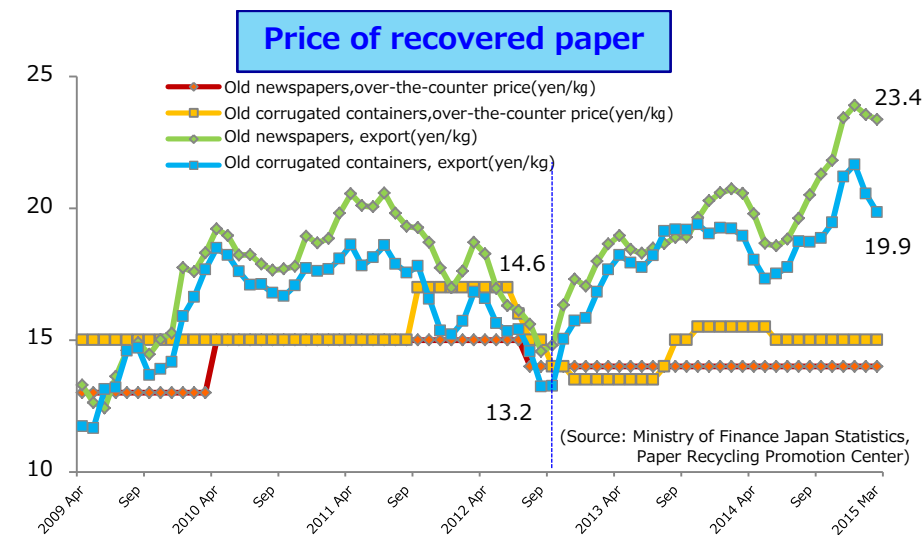
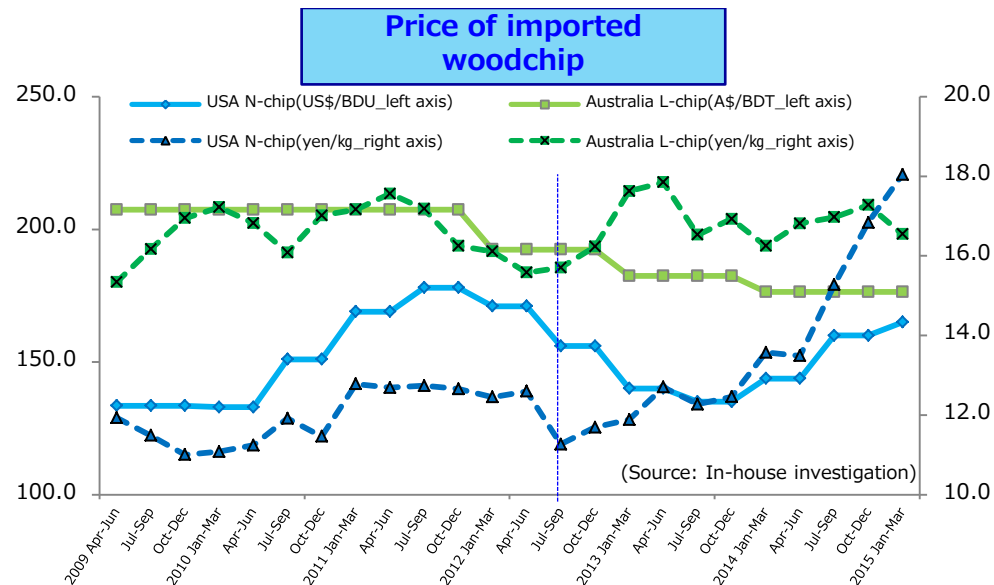
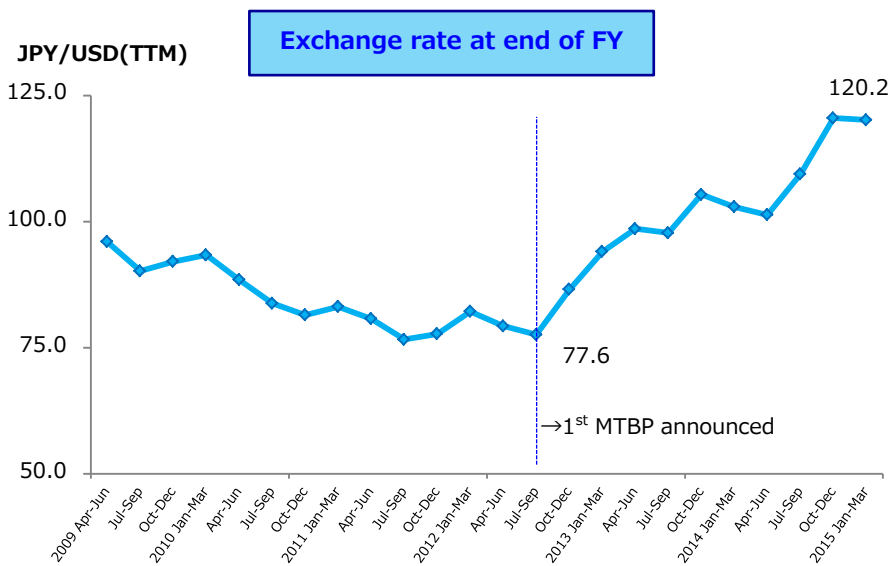
- 1 .Changes in external environment**
- 2 .Review of 1st Medium-term Business Plan**
- 3 .Outline of 2nd Medium-term Business Plan**

Changes in external environment

Changes in external environment

DAIO PAPER CORPORATION

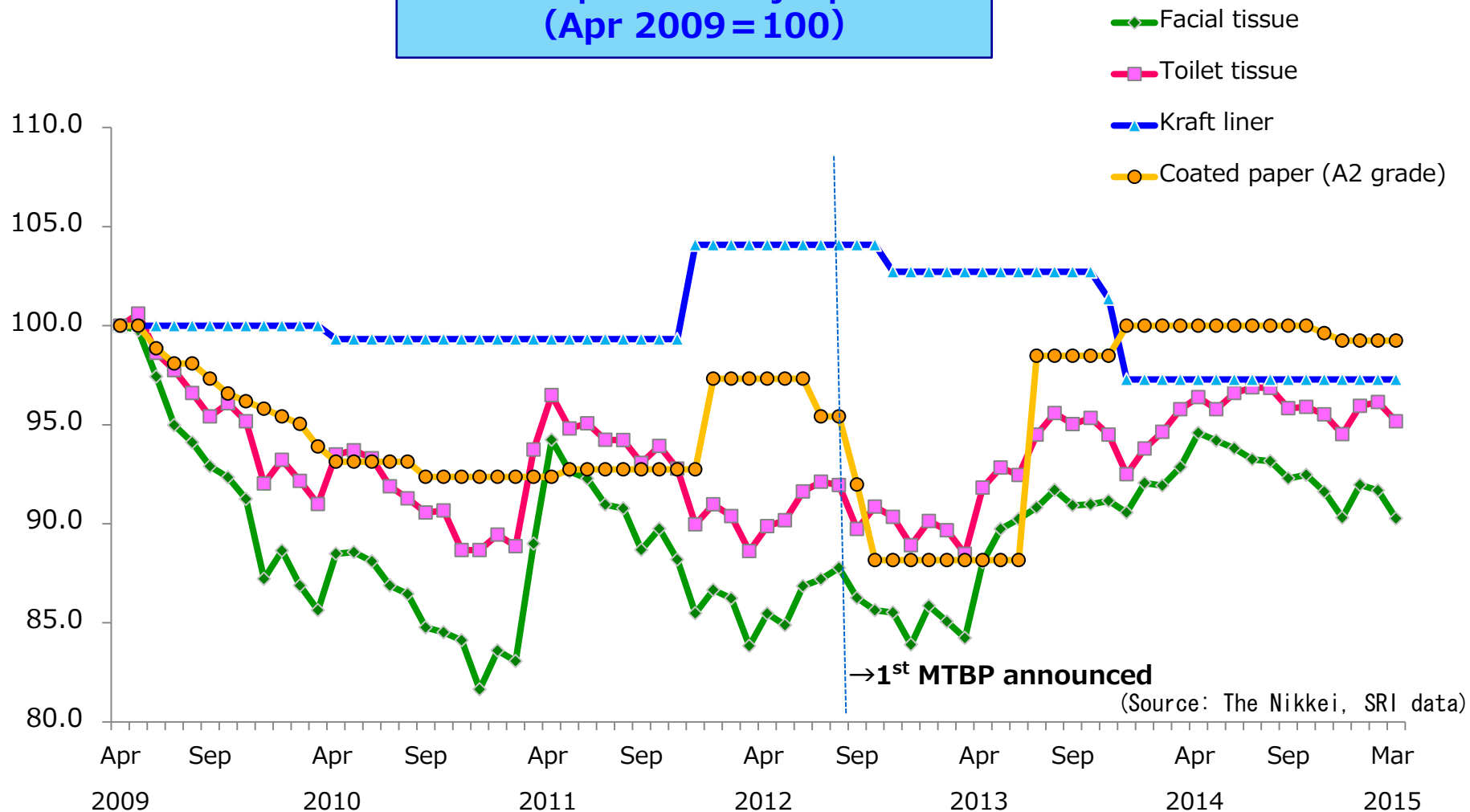
Note: N-chip are softwood chip, while L-chip are hardwood chip.



Changes in external environment

DAIO PAPER CORPORATION

Trends of prices of major products
(Apr 2009 = 100)



Review of 1st Medium-term Business Plan

(In this document, figures are rounded down to the nearest hundred million, unless stated otherwise.)

Review of 1st Medium-term Business Plan *DAIO PAPER CORPORATION*

1st MTBP

(Unit : Billion yen, %, times)

Business Results	FY2011 Results	FY2012 Results	FY2013 Results	FY2014 Results	Variance (vs FY2011)	1st MTBP Goal (FY2014)	Variance (vs FY2014 Results)	Result
Net sales	408.9	407.3	430.0	450.2	41.3	450.0	0.2	○
Ordinary income	4.7	6.6	11.2	21.7	17.0	22.5	△ 0.8	×
Sales ratio	1.2	1.6	2.6	4.8	3.6	5.0	△ 0.2	×
Interest-bearing debt	458.2	449.7	417.6	375.0	△ 83.2	400.0	△ 25.0	○
(Ref) Net interest-bearing debt	348.2	363.5	331.8	292.4	△ 55.8			
Equity ratio	14.0	14.7	17.0	23.7	9.7	17.0	6.7	○
D/E ratio	4.8	4.6	3.8	2.4	△ 2.4	3.8	△ 1.4	○
(Ref) Net D/E ratio	3.7	3.7	3.0	1.9	△ 1.8			

※Interest-bearing debt and net interest-bearing debt of FY2011 are estimated with the scope of consolidation that comprises thirty-nine companies.

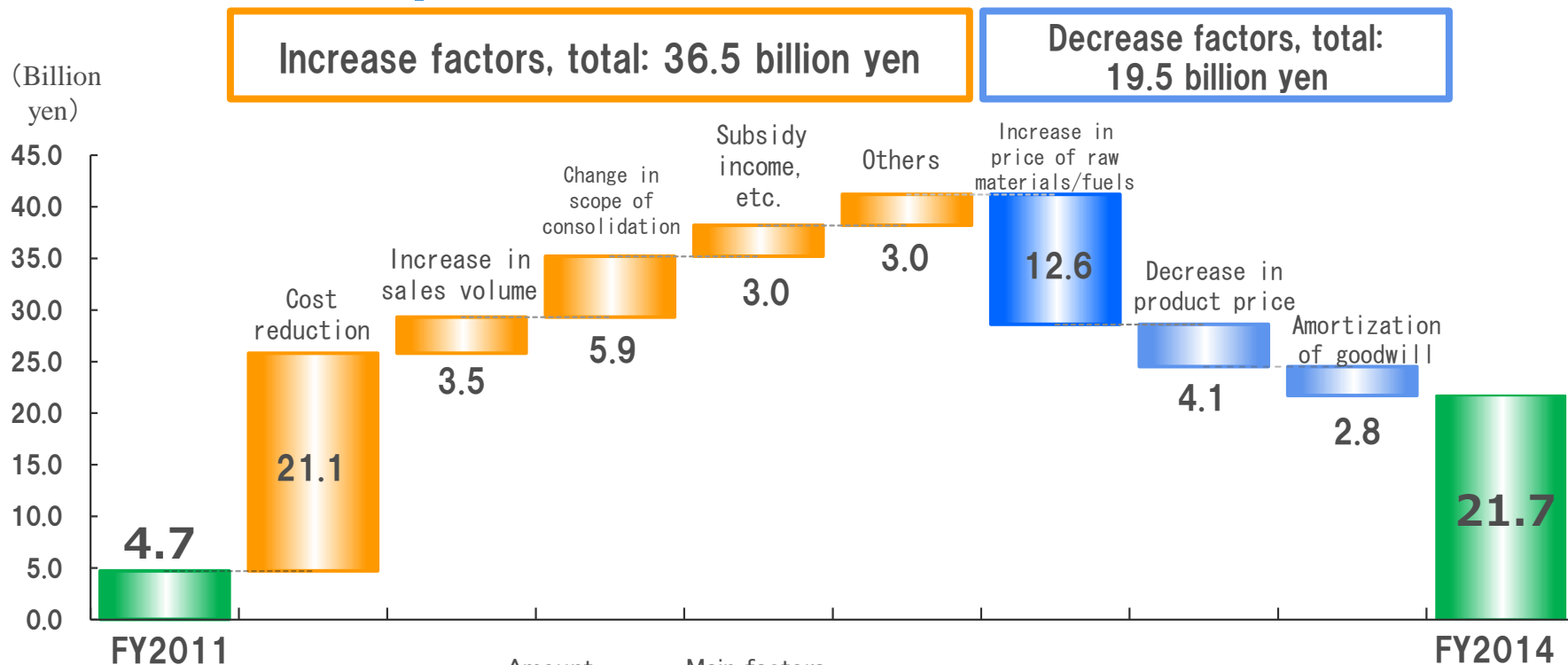
※Exchange rate (Yen/USD) :	79.1	82.9	100.2	109.8	30.7	83.0	26.8
※Dubai crude oil (USD/barrel) :	110	107	105	84	△ 26	122	△ 38

Note: Under Japanese GAAP, ordinary income or loss is calculated by adding and deducting non-operating income and expenses of a recurring nature (e.g. interest and dividend income and interest expense and foreign exchange gain or loss) to and from operating income.

Breakdown of Increase/Decrease of Consolidated Ordinary Income

DAIO PAPER CORPORATION

+ 17.0 billion yen (FY2011: 4.7 billion yen → FY2014: 21.7 billion yen)



	Amount	Main factors
Cost reduction	21.1	Depreciation and amortization cost (+5.4), yield rate/composition (+4.1), energy-saving (+3.9), chemicals (+2.9), production increase (+1.8), others (+3.0)
Increase in sales volume	3.5	Paper&Paperboard (Δ0.6), H&PC (+4.1)
Change in scope of consolidation	5.9	Increase of consolidated subsidiaries, merger of consolidated subsidiaries and non-consolidated subsidiaries, inclusion of overseas subsidiaries in scope of consolidation
Subsidy income, etc.	3.0	Mainly due to subsidy granted to Iwaki Daio Paper Corporation
Others	3.0	Decrease in interest expenses due to reduction of interest-bearing debt, others
Increase in price of raw materials/fuels	Δ 12.6	Woodchip (Δ5.5), recovered paper (Δ3.4), chemicals (Δ0.8), pulp and others (Δ2.9)
Decrease in product price	Δ 4.1	Paper&Paperboard (Δ3.3), H&PC (Δ0.8)
Amortization of goodwill	Δ 2.8	
Increase/decrease of ordinary income, total	17.0	

Implementation of strategies of 1st Medium-term Business Plan

DAIO PAPER CORPORATION

1st MTBP's principal strategies and implementation status

- | | | | |
|---|---|---|---|
| 1) Rebuild of business foundation under new group structure | | 3) Strengthening of Containerboard and Corrugated Container Business | |
| ① Establishment of governance structure, and integrated management and operation of production and sales | ○ | Merger of corrugated container subsidiaries | ○ |
| ② Achievement of higher efficiency through merger of organization and group companies | ○ | <i>Installation of a new machine at Iwaki Daio Paper</i> | ● |
| ③ Restructure of R&D framework | ○ | <i>Raise of product price</i> | ● |
| ④ Improvement of financial strength | | Establishment of corrugated container business near H&PC overseas factories | △ |
| Selection and concentration of investment activities, sale of assets | ○ | 4) Expansion of H&PC Business | |
| Compression of inventories & trade accounts receivable | ○ | ① Improvement of profitability of paper products | |
| Implementation of Cash Management System (Group Finance) | ○ | Shift to higher value-added products | ○ |
| <i>Capital increase through public offering and third-party allotment</i> | ○ | Consideration of installation of new tissue machine | ● |
| <i>Implementation of Consolidated Tax Return</i> | ○ | <i>Strengthening of alliance with Tokushu Tokai Ecology</i> | ○ |
| | | <i>Raise of price of products</i> | ○ |
| 2) Improvement of profitability of Paper Division through thorough cost reduction and structural shift of product mix | | ② Strengthening of domestic absorbent products business | |
| Move manufacturing of some types of paper to the cost-competitive Mishima mill | ○ | Installation of new adult diaper facilities | ○ |
| Reduction of pulp costs by improving kraft pulp facilities | ○ | Increase and strengthening of product lineup via R&D | ○ |
| Shift of procurement source of import L-chips to Asia | ○ | <i>Increase of production and sales of baby diapers</i> | ○ |
| Structural shift of product mix to more profitable types | ○ | <i>Consideration of installation of absorbent product manufacturing facilities at Iwaki</i> | ● |
| Cut-down of transportation and warehousing cost | ○ | ③ Strengthening of overseas (Asia region) disposable diapers business | |
| <i>Increase of profitability with the involvement of every member of the Company via the implementation of an original profit management system</i> | ○ | Strengthening of export sales | ○ |
| <i>Comprehensive technological alliance agreement with Hokuetsu Kishu Paper</i> | ○ | Expansion of sales distribution in Asia region | ○ |
| <i>Raise of product price</i> | ○ | Installation of additional manufacturing facilities at Thailand factory | ○ |
| | | <i>Establishment of manufacturing/sales company in China</i> | ○ |
| | | <i>Establishment of sales company/manufacturing company in Indonesia</i> | ● |

*Absorbent products refer to disposable diapers, feminine care products, and light incontinence products.

○...Implemented and reaped effects during 1st MTBP

●...Commenced during 1st MTBP, and projected to reap effects from 2nd MTBP △...Considered but not implemented

In blue are strategies that are added after the initial plan.

Outline of 2nd Medium-term Business Plan

【FY2017 Business Goals】

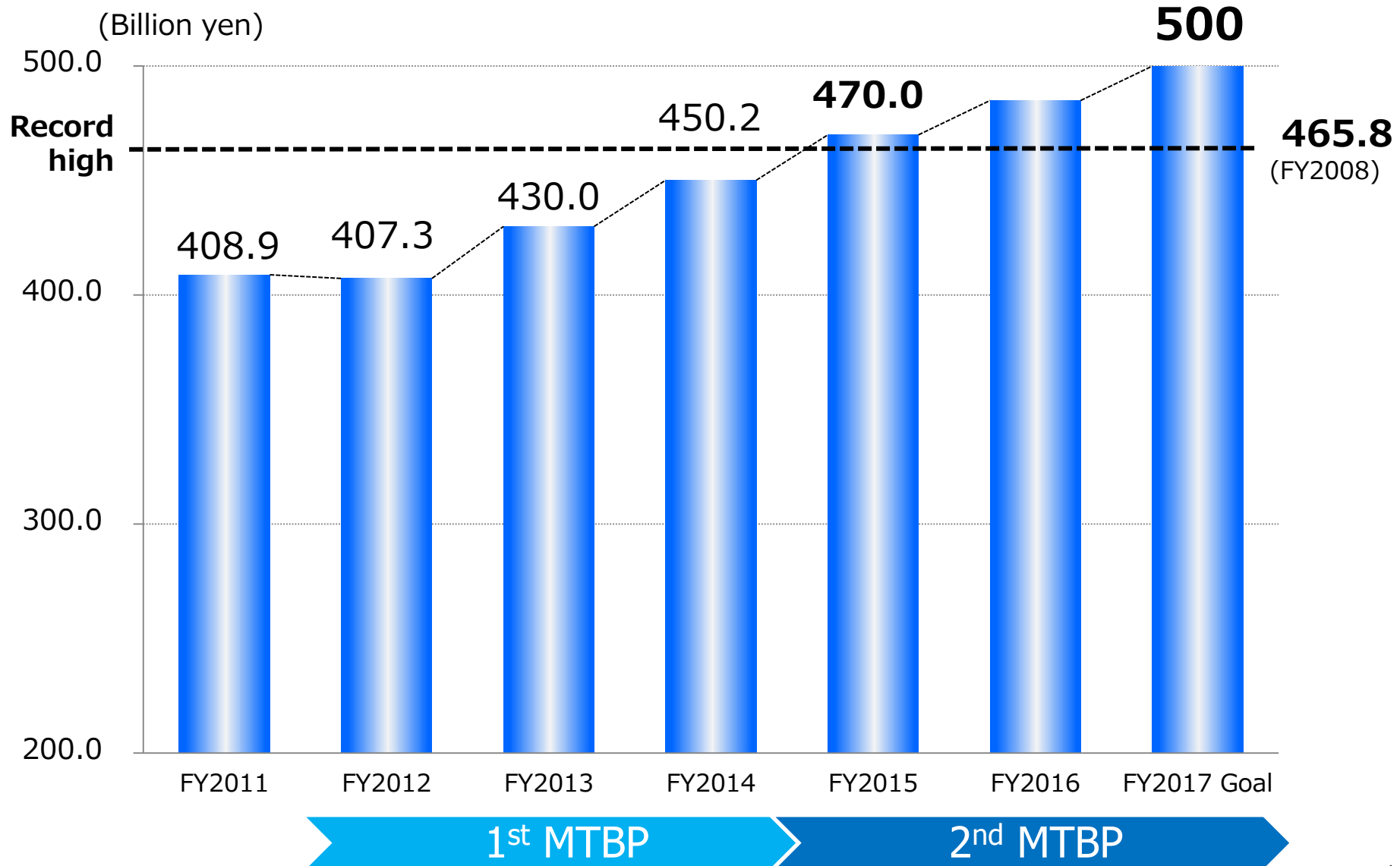
Net sales	500 billion yen
Ordinary income	25 billion yen
Sales ratio	5%
Net interest-bearing debt	Under 250 billion yen
Equity ratio	28%
Net D / E ratio	1.5 times

【Assumptions】 US dollar : 122yen/\$
Dubai crude oil: 80USD/barrel

2nd MTBP Business Goals

DAIO PAPER CORPORATION

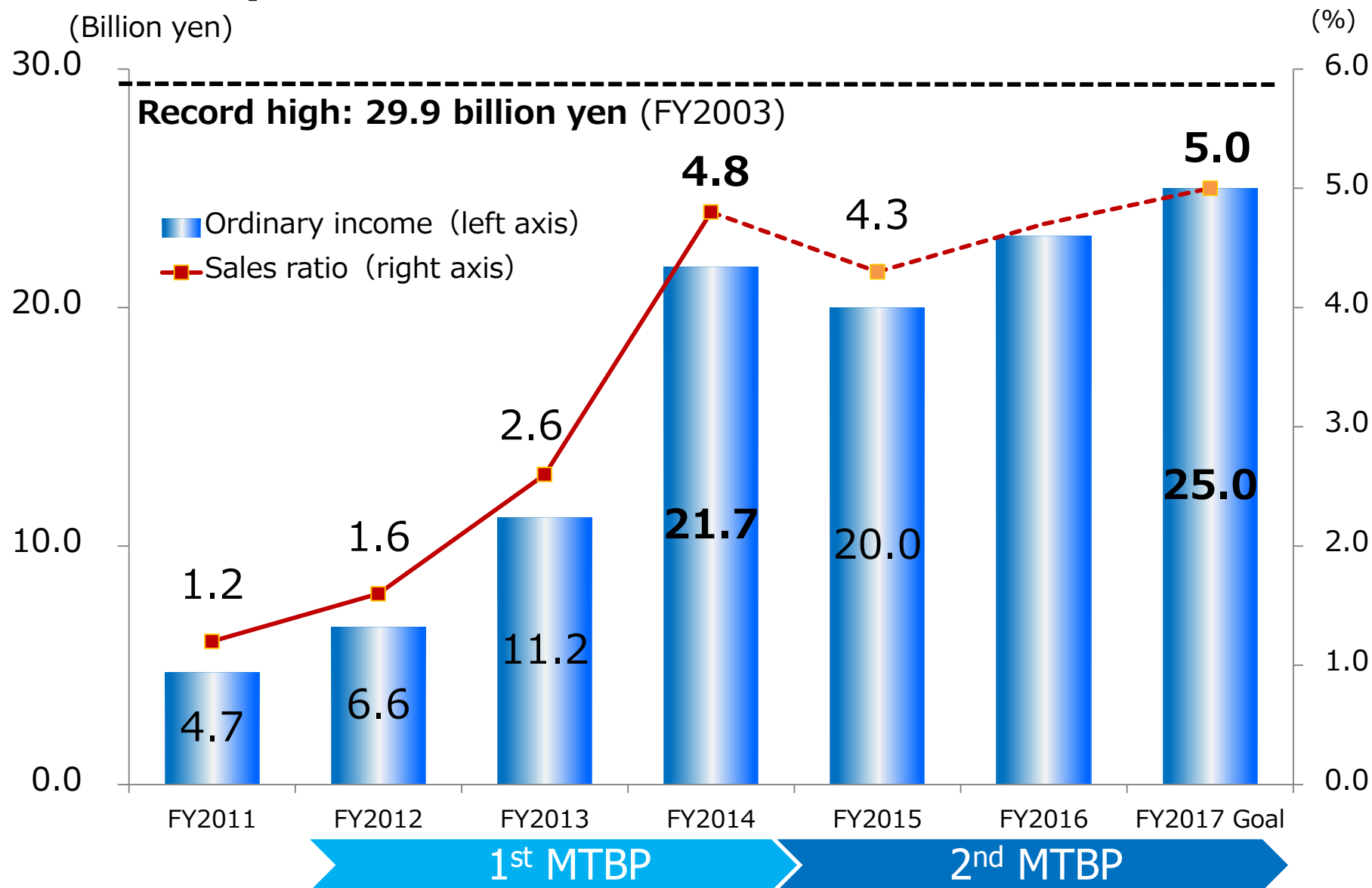
<Net sales>



2nd MTBP Business Goals

DAIO PAPER CORPORATION

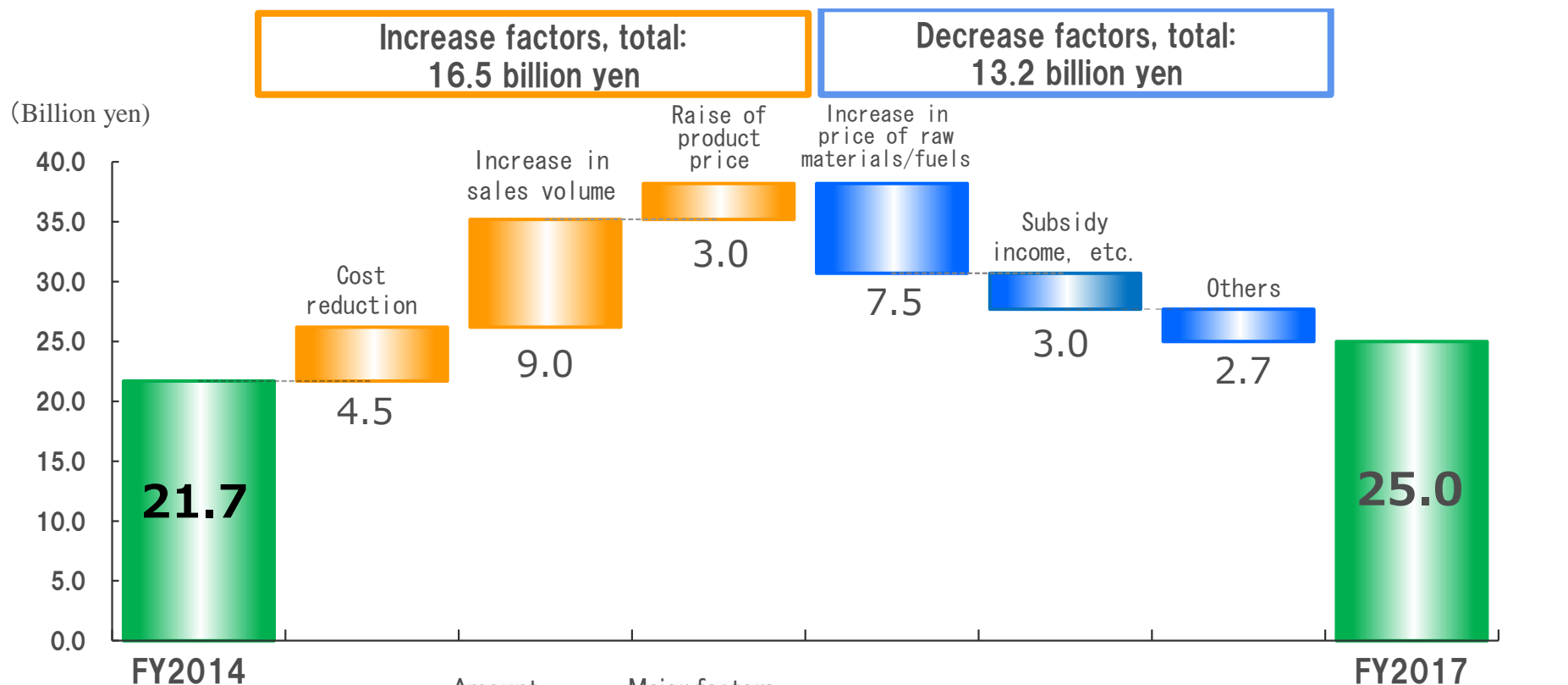
<Ordinary income>



Breakdown of Increase/Decrease of Consolidated Ordinary Income

DAIO PAPER CORPORATION

+ 3.3 billion yen (FY2014: 21.7 billion yen → FY2017: 25.0 billion yen)



	Amount	Major factors
Cost reduction	4.5	Production increase (+3.0), chemical (+0.3), yield rate/composition (+0.3), energy-saving (+0.2), others (+0.7)
Increase in sales volume	9.0	Paper&Paperboard (+1.0), H&PC (+8.0)
Raise of product price	3.0	Paper&Paperboard (+5.0), H&PC (Δ2.0)
Increase in price of raw materials/fuels	Δ 7.5	Woodchip (Δ5.0), chemicals (Δ1.0), recovered paper (Δ0.7), purchased pulp and others (Δ0.8)
Subsidy income, etc.	Δ 3.0	Inclusion of subsidy income (Iwaki Daio) in FY2014
Others	Δ 2.7	Mainly due to increase in logistics cost and advertising cost from increase in sales in H&PC Business
Increase/decrease of ordinary income, total	3.3	

2nd MTBP Financial Goals

DAIO PAPER CORPORATION

<Investment/Financial Data>

		1 st MTBP				2 nd MTBP
	FY	2011	2012	2013	2014	2017 Goal
Depreciation cost, 3-year cumulative	Billion yen	29.5	26.4	26.4	27.2 80.0	85
Capital expenditures, 3-year cumulative	Billion yen	18.2	21.7	24.9	31.5 78.1	70
Net interest-bearing debt	Billion yen	348.2	363.5	331.8	292.4	Under 250
(Ref)Interest-bearing debt	Billion yen	458.2	449.7	417.6	375.0	310
Equity ratio	%	14.0	14.7	17.0	23.7	28
Net D/E ratio	times	3.7	3.7	3.0	1.9	1.5
(Ref)D/E ratio	times	4.8	4.6	3.8	2.4	1.8

※Net interest-bearing debt and interest-bearing debt for FY2011 are estimated with the scope of consolidation that comprises thirty-nine companies.

<Principal strategies>

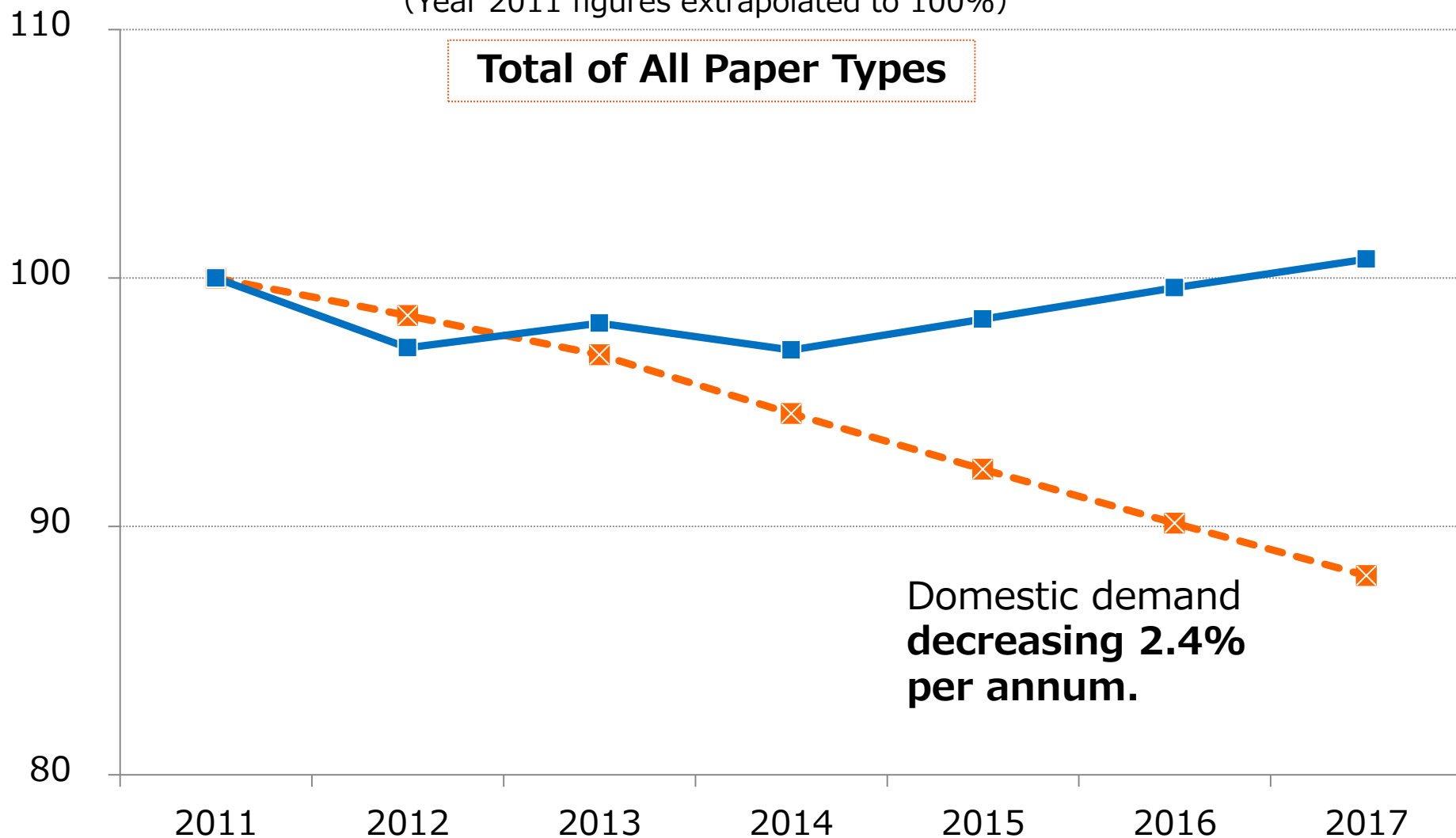
- **Structural shifting of Paper Business**
- **Strengthening Containerboard & Corrugated Container Business**
- **Further growth and acceleration of H&PC Business**
- **Thorough cost reduction**
- **Pursuing efficiency and diversity in human resource utilization**
- **Further improvement of financial strength**

Structural shifting of Paper Business DAIO PAPER CORPORATION

Trend in Domestic Demand and Company Sales Volume

(Year 2011 figures extrapolated to 100%)

Domestic Demand —
Company Sales —



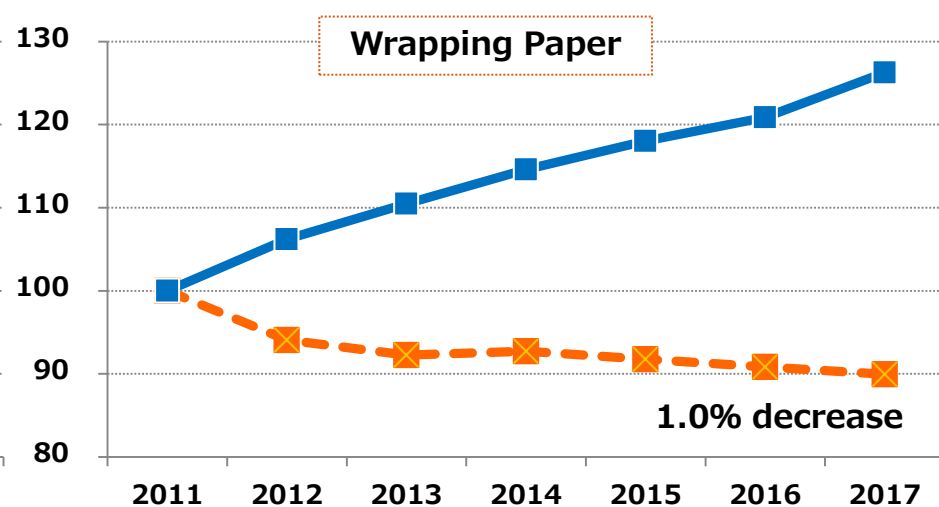
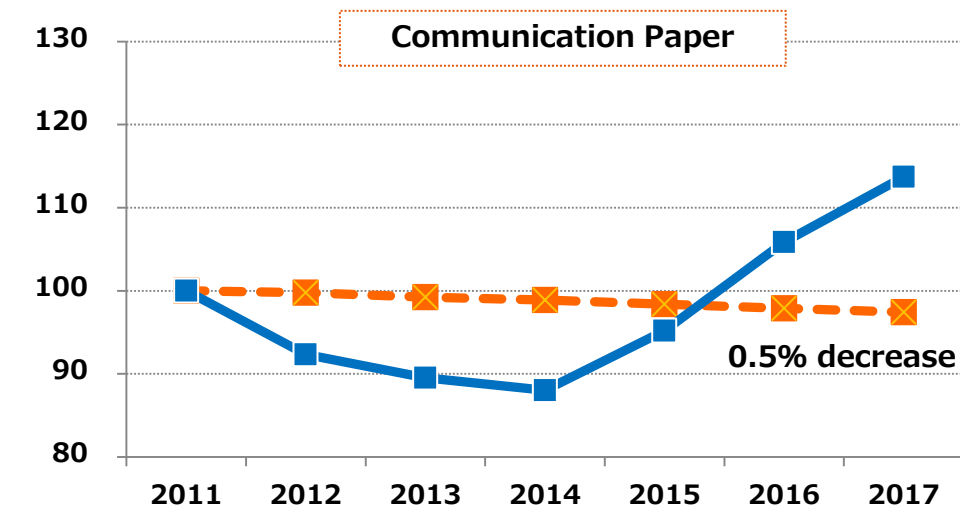
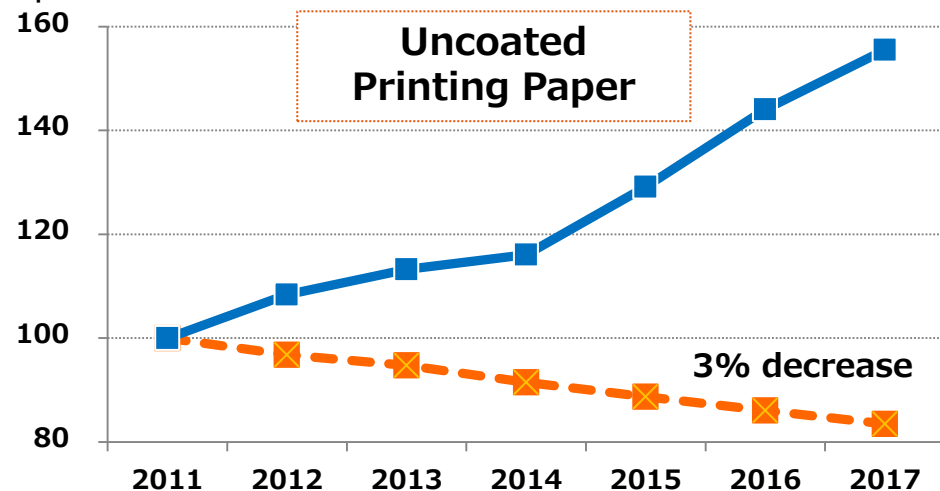
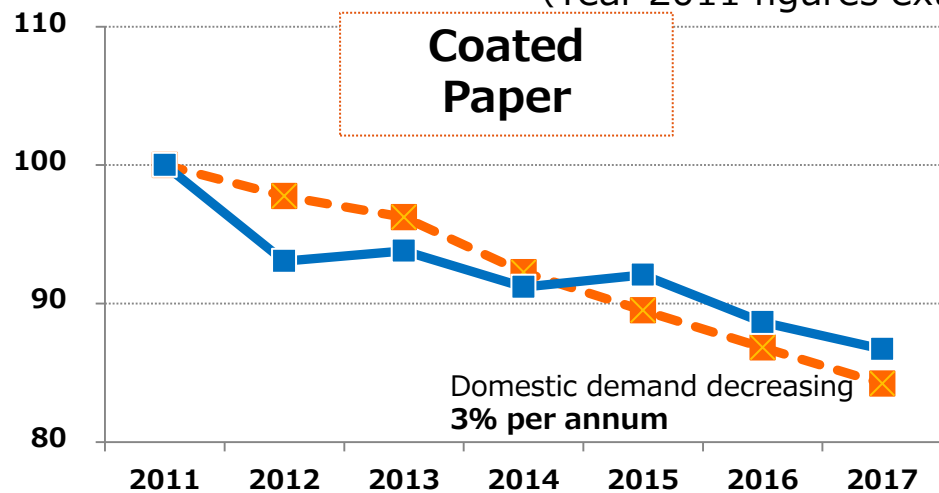
※ Both Domestic Demand and Company Sales Volume represent total of that in the period of Jan through Dec of each respective year.

Structural shifting of Paper Business DAIO PAPER CORPORATION

Trend in Domestic Demand and Company Sales Volume

(Year 2011 figures extrapolated to 100%)

Domestic Demand —
Company Sales —



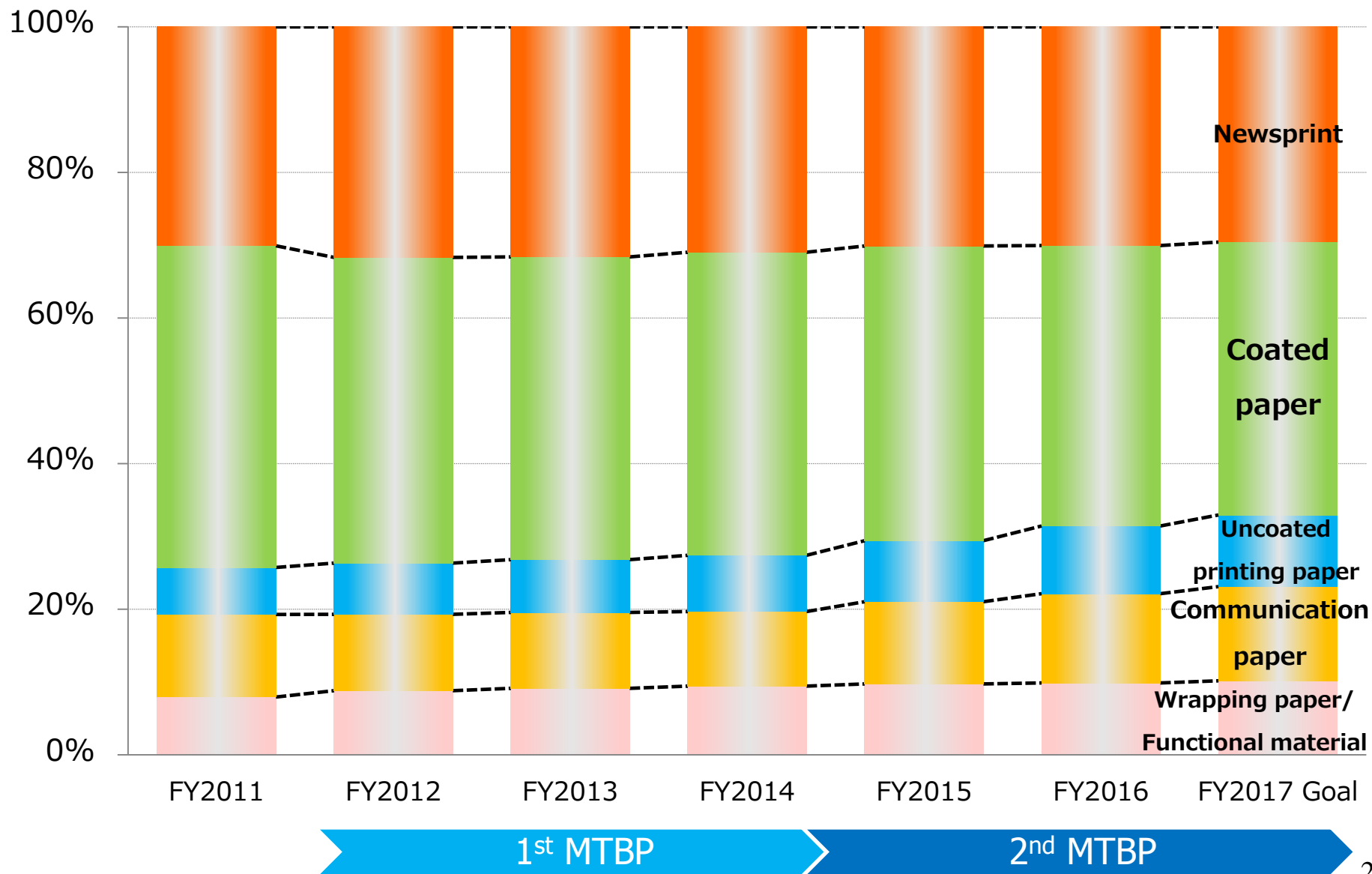
※ Both Domestic Demand and Company Sales Volume represent total of that in the period of Jan through Dec of each respective year.

<Specific strategies>

- **Further shift of product mix to profitable paper types to improve the profitability of the Paper Business**
 - Shift to sale of higher value-added product types
 - Strengthen sales of uncoated paper, with focus on woodfree paper, PPC paper, etc.
 - Expand sales of wrapping paper
- **Further concentration of manufacturing of different product types at the highly cost-competitive Mishima Mill and maintaining full-capacity operation of paper machines at Mishima Mill to achieve greater profits**

Structural shifting of Paper Business DAIO PAPER CORPORATION

<Change in product mix of paper sales volume>



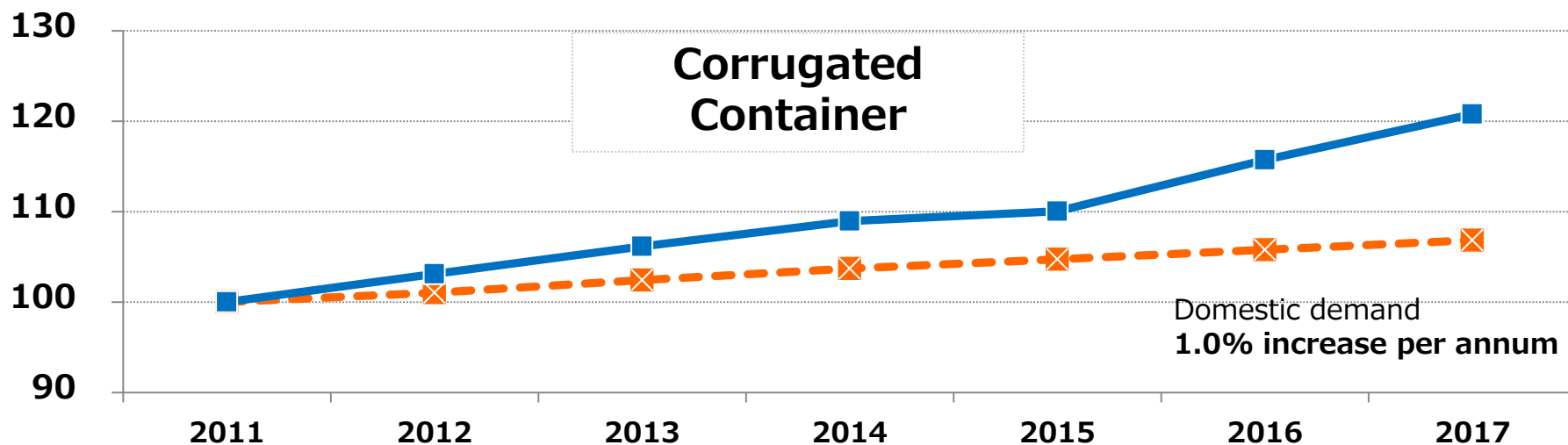
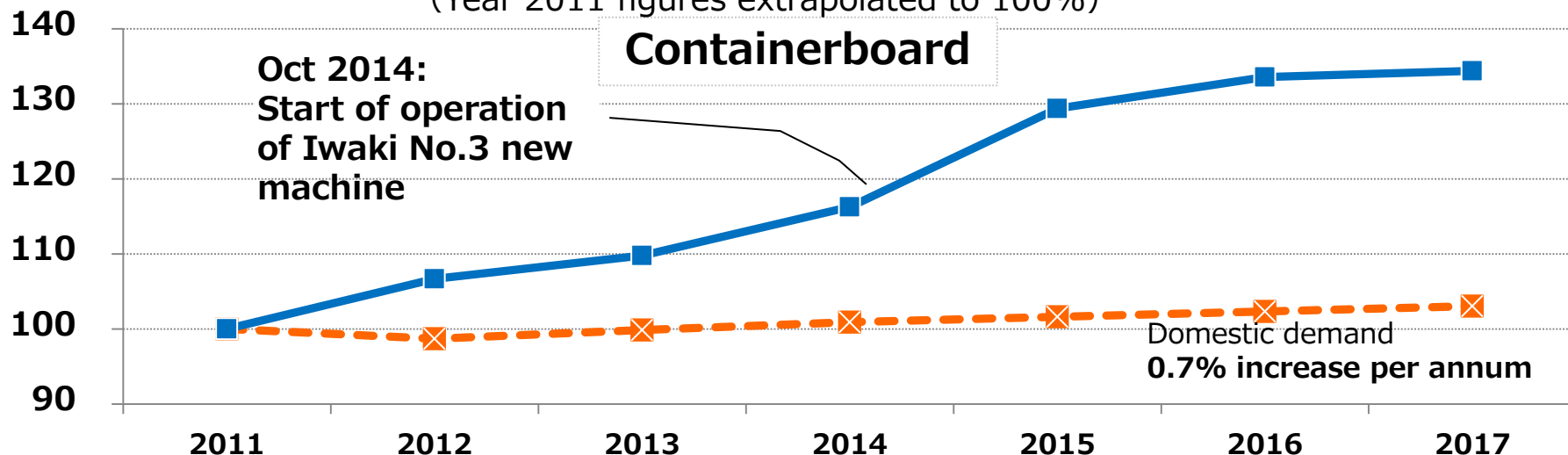
Strengthening Containerboard & Corrugated Container Business

DAIO PAPER CORPORATION

Trend in Domestic Demand and Company Sales Volume

(Year 2011 figures extrapolated to 100%)

Domestic Demand —
Company Sales —

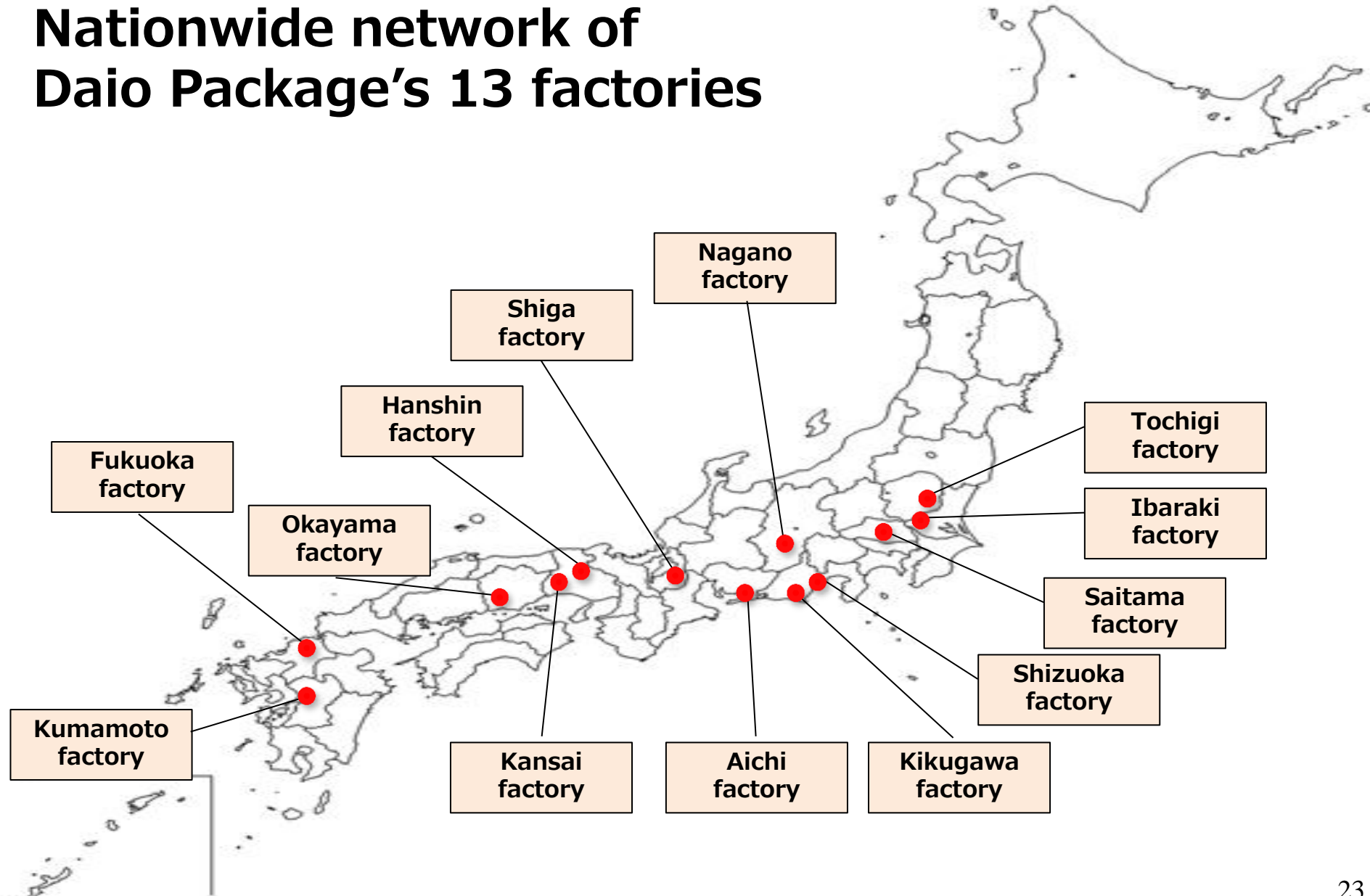


※ Both Domestic Demand and Company Sales Volume represent total of that in the period of Jan through Dec of each respective year.

<Specific strategies>

- **Maintain production and sales at full capacity for Iwaki No. 3 new machine that begun operation in Oct 2014**
- **Expand Corrugated Container Business by strengthening the total capability of Daio Package**
 - **Strengthening of manufacturing and sales framework by leveraging on Daio Package's nationwide 13-factory network**
 - **Implementation of strategic capital expenditures of 12 billion yen to achieve higher quality and shift of product mix to higher value-added corrugated containers**
 - Feb 2015: Addition of flexo folder gluer at Shiga factory.
 - Subsequent addition/renewal of corrugator, flexo folder gluer, platen die cutters, and printing facilities at each factory.
 - **Reap benefits from the "1 company, 13 factories" synergy that resulted from merger**

Nationwide network of Daio Package's 13 factories



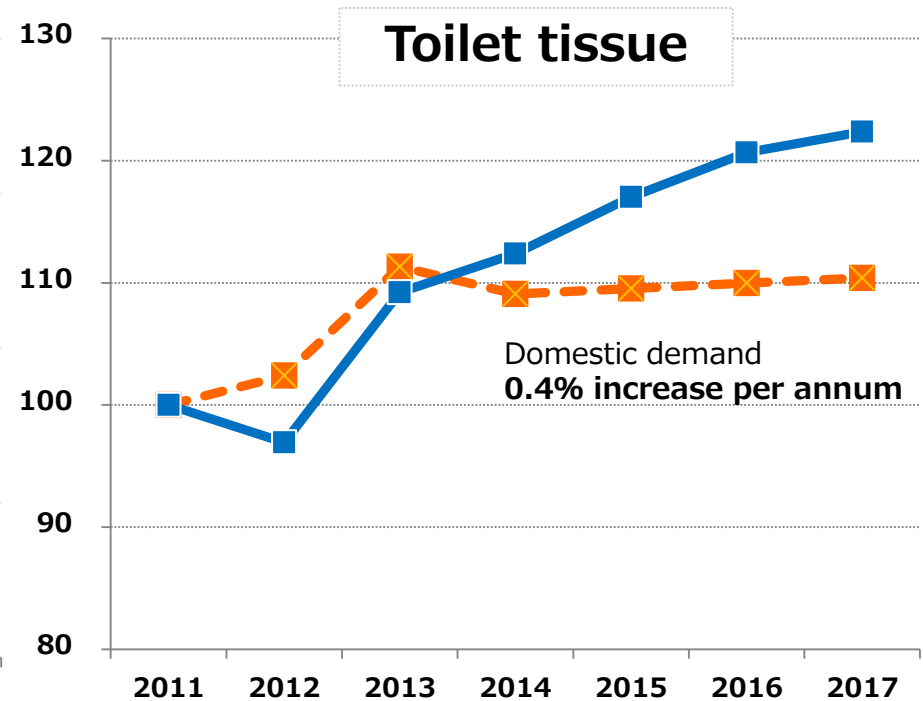
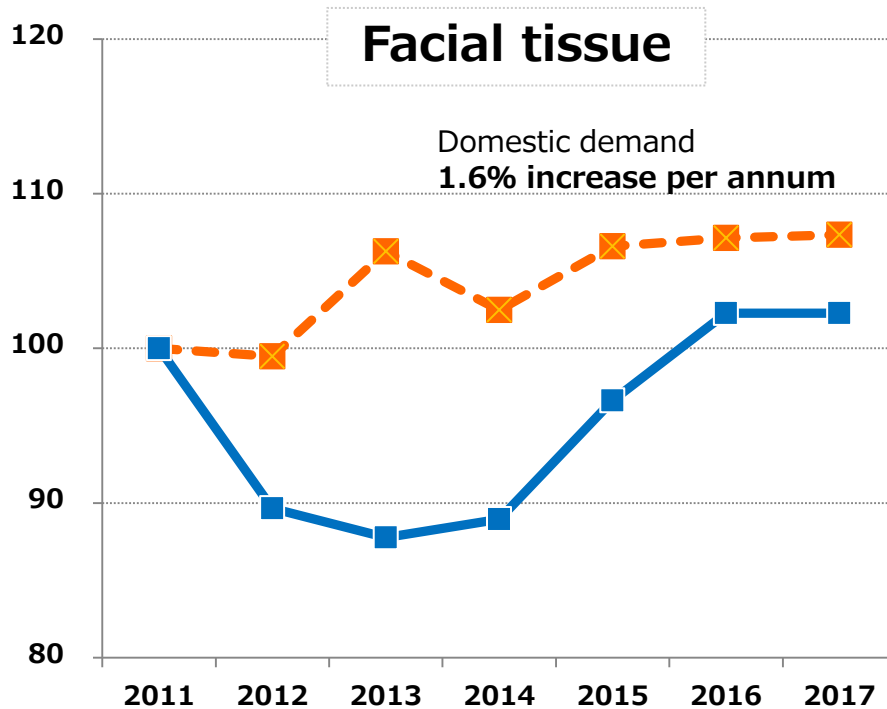
Further growth and acceleration of H&PC Business

DAIO PAPER CORPORATION

<Paper products>

Trend in Domestic Demand and Company Sales Volume (Year 2011 figures extrapolated to 100%)

Domestic Demand ———
Company Sales ———



Further growth and acceleration of H&PC Business

DAIO PAPER CORPORATION

<Absorbent products>

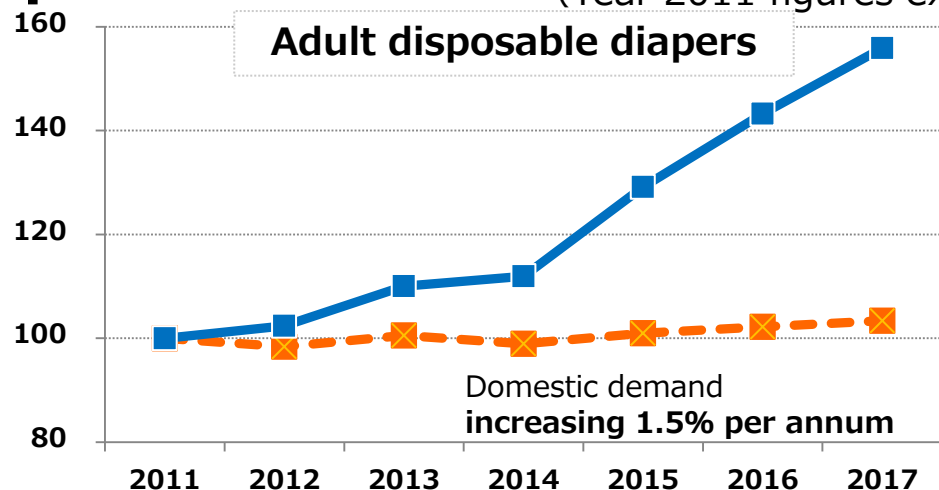
Trend in Domestic Demand and Company Sales Volume

(Year 2011 figures extrapolated to 100%)

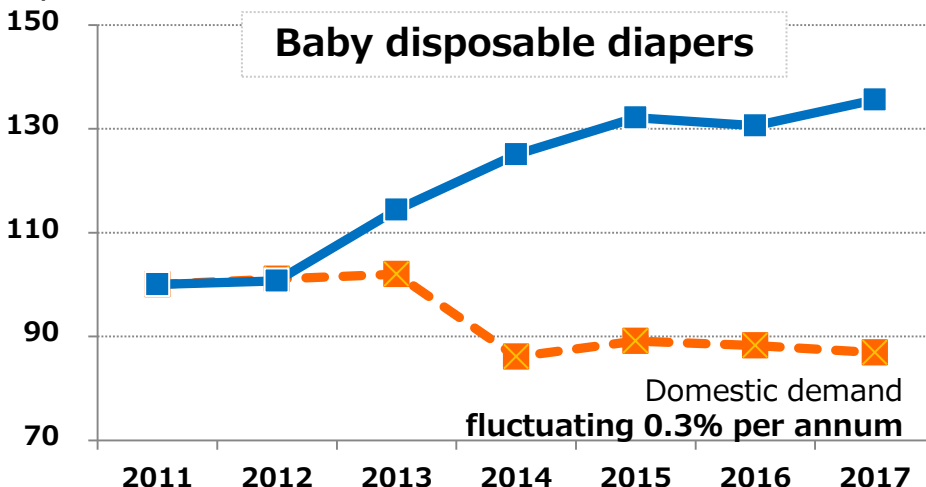
Domestic Demand
Company Sales



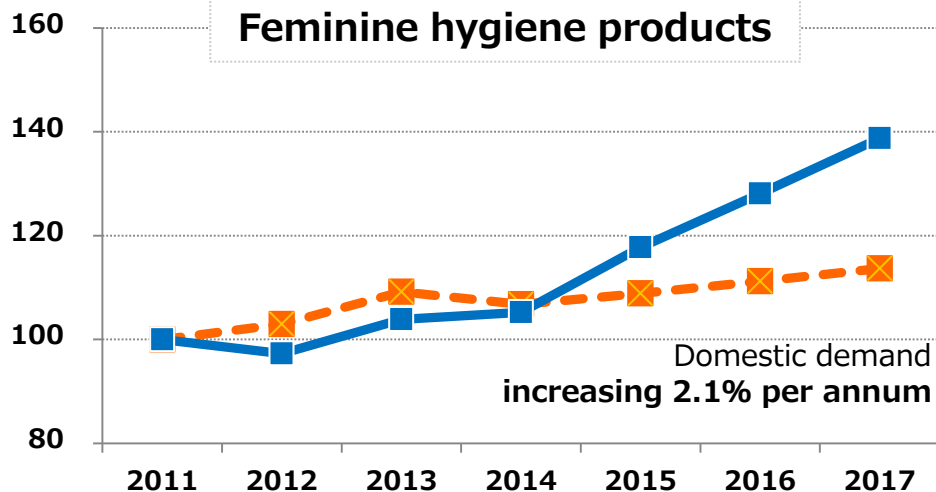
Adult disposable diapers



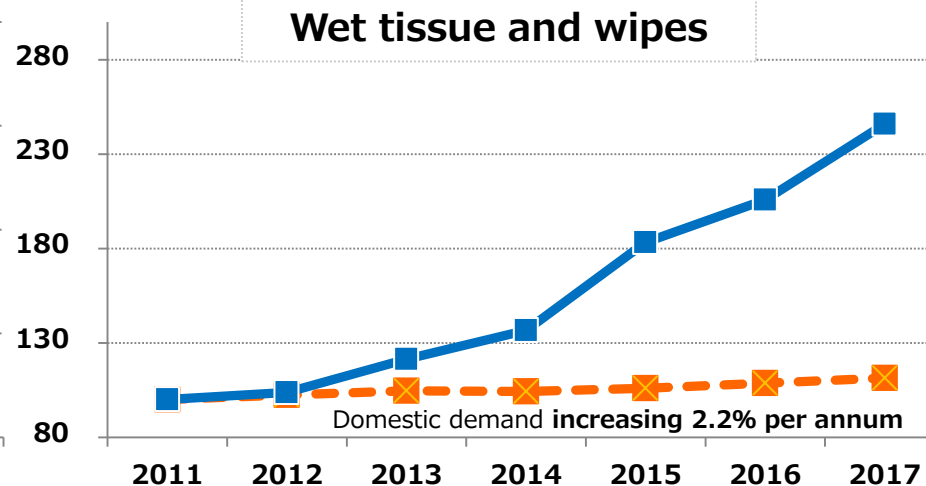
Baby disposable diapers



Feminine hygiene products



Wet tissue and wipes



FY2017: Achieve goal of net sales 200 billion yen

<Domestic business>

- Expand business of adult disposable diapers (*Attento*) for which market demand is projected to rise, and improve market position of baby disposable diapers (*GOO.N*) and feminine hygiene products (*elis*)
- Achieve No.1 in category share across all paper products, and increase competitiveness and promote sales of higher value-added products
- Strengthen production and sales of wet tissue and wipes.

【Major capital expenditures】

- | | | |
|---|---------|---------------------------------|
| •Strengthen absorbent products facilities | 2016/1~ | Elleair Product Iwaki Factory |
| •Install new household paper machine | 2015/9~ | Kani Mill |
| •Increase and strengthen wet tissue and wipes | 2015/3~ | Elleair Product Mishima Factory |

Further growth and acceleration of H&PC Business

DAIO PAPER CORPORATION

With the establishment of Elleair Product Iwaki Factory, a multi location production system, which already exists for paper product, is achieved for absorbent products.

**Elleair Product
HQ (Mishima)
Factory**



- Baby diapers
- Adult diapers
- Wet tissue and wipes

**Elleair Product
Kitsuregawa
Factory**



- Adult diapers
- Feminine hygiene products
- Wet tissue and wipes

**Elleair Product
New Iwaki Factory**



- Baby diapers
- Adult diapers
- Feminine hygiene products

**Elleair Product
Fuji & Kitayama
Factory**



- Adult diapers
- Feminine hygiene products

<Overseas business>

- **Achieve net sales (overseas) of 50 billion yen (10% of consolidated net sales 500 billion yen) in FY2017**
- **Advance into new markets(Middle East, etc.) and increase categories of products offered overseas**
- **Turn Indonesia factory into a profitable business early after commencement of production**

【Major capital expenditures】

China	2015/8	Increase baby diaper manufacturing facilities, expand warehousing capacity
	2016/8	Increase baby diaper manufacturing facilities
Indonesia	2015/12	Start production at manufacturing factory, increase baby diaper manufacturing facilities
	2016/1	Increase baby diaper manufacturing facilities
Thailand	2015/10	Expand warehousing capacity
	2017/1	Increase baby diaper manufacturing facilities

Further growth and acceleration of H&PC Business

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EIMI (PT.Elleair International Manufacturing Indonesia)

[3rd production factory following Thailand, China]

Location : West Java Province, Bekasi Regency,
Bekasi International Industrial Estate
(30km east of capital, Jakarta on Java island)



Capital : 160 billion IDR (1.52 billion yen) ※1 IDR = 0.0095yen

Date Established: 27th Nov, 2014

Site area: Around 39,000m²

Commence Production: Dec 2015 (projected)

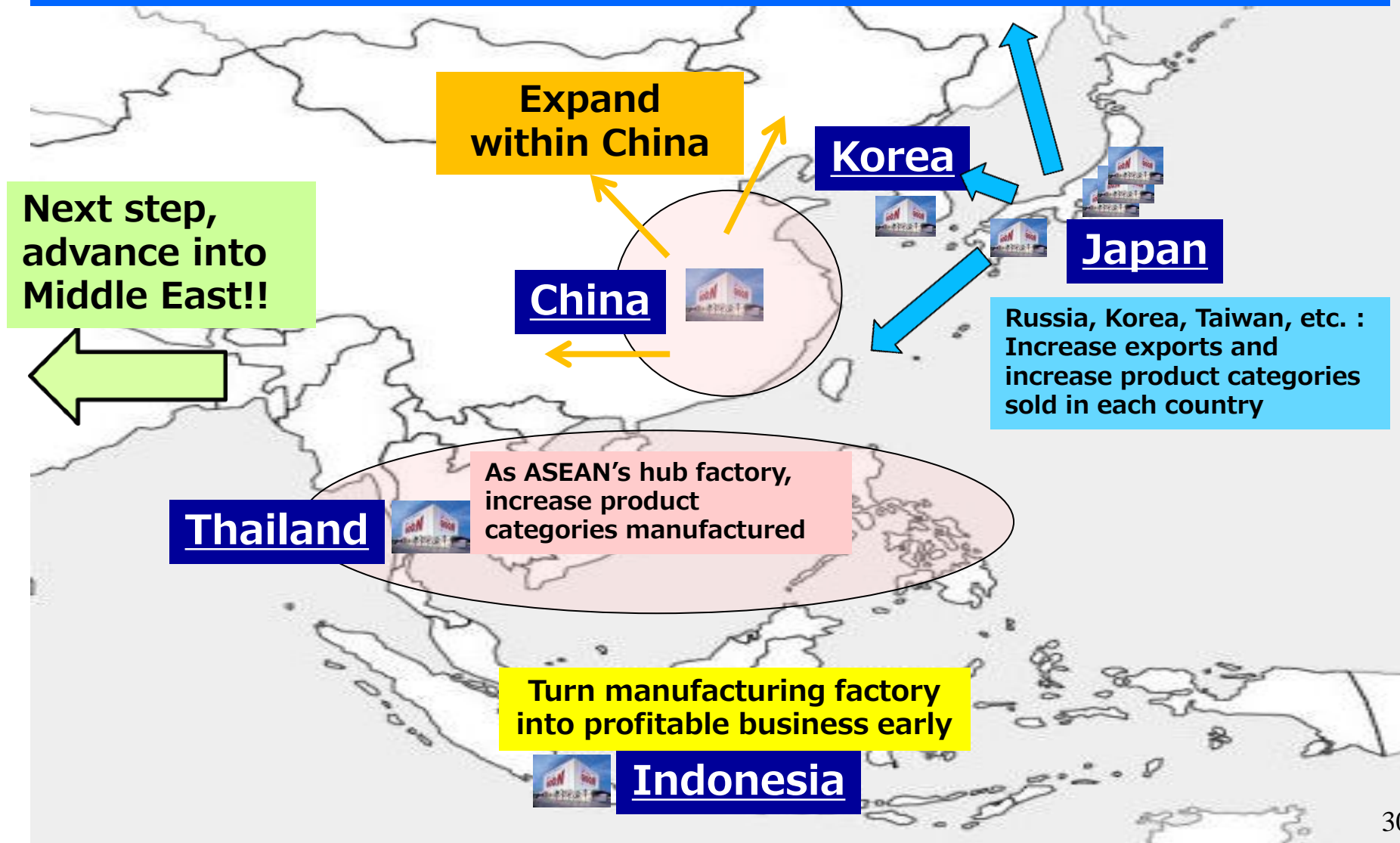
Commence Shipping: Jan 2016 (projected)



Further growth and acceleration of H&PC Business

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Draw the dots, connect the dots, and add dimensions:
a 3D approach to the expansion of production and sales

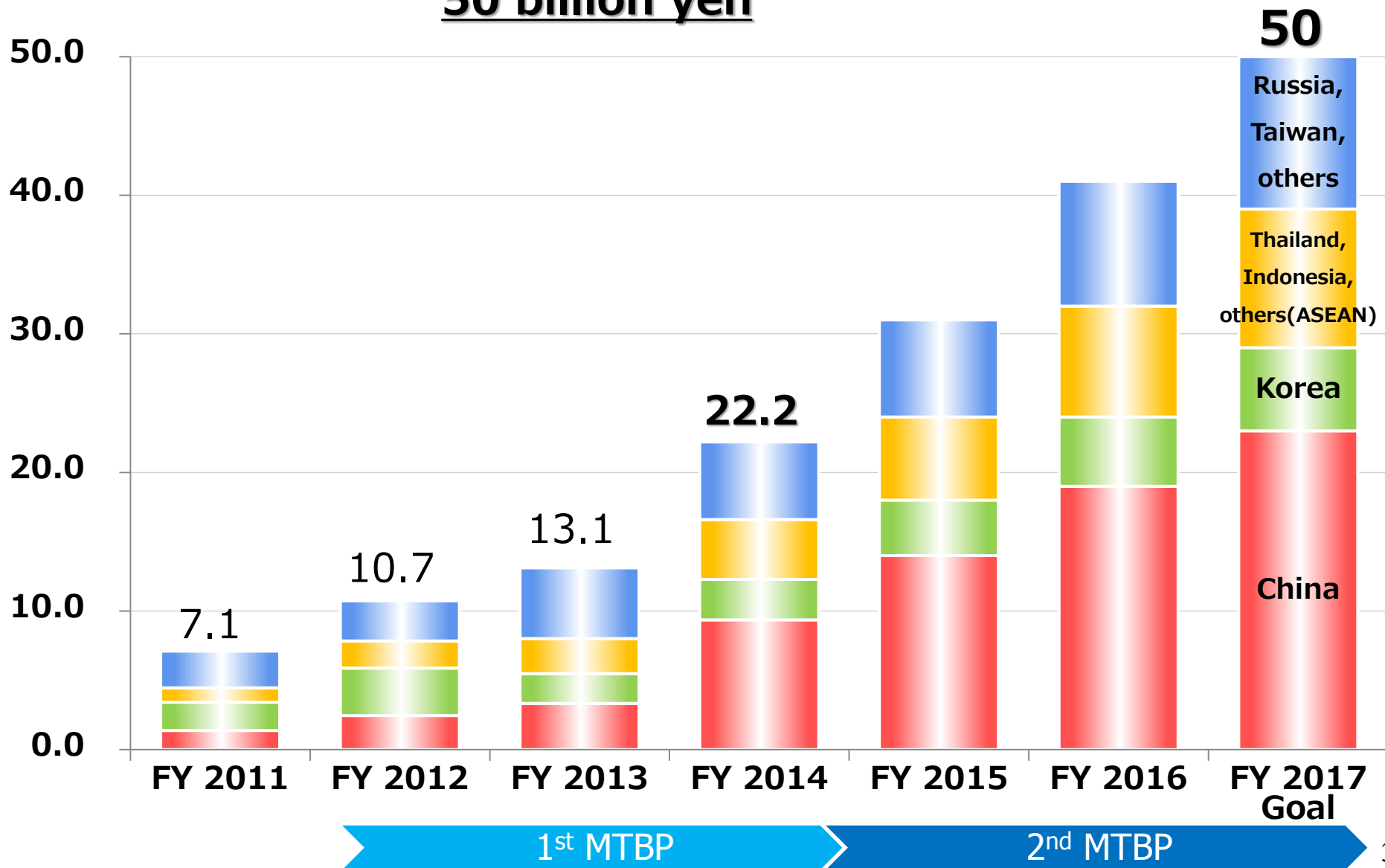


Further growth and acceleration of H&PC Business

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FY2017 Goal for Net Sales (Overseas Business):
50 billion yen

Unit: Billion yen



Breakdown of capital expenditures in growth areas

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Containerboard and Corrugated Board Business

Capital expenditures: **12 billion yen**

Feb 2015 Installed new flexo folder gluer at Shiga factory

May 2015~

Implemented new installation and/or renewal of facilities (corrugator, flexo folder gluer, platen die cutters, printing machines, cutters, production control apparatus) at Daio Package's 13 factories subsequently

H&PC Business

Capital expenditures: **37 billion yen**
【Domestic】

Mar 2015~ Strengthen wet tissue and wipes facilities at EPR Mishima

Sep 2015 Increase facial tissue manufacturing capacity at Kani Mill

Jan 2016~ Start operation of new Iwaki Factory, installation of new absorbent product facilities

【Overseas】

Aug 2015~ Expansion of China warehouse, increase baby diapers manufacturing capacity

Oct 2015 Expansion of Thailand warehouse

Dec 2015 Start operation of new Indonesia Factory

Jan 2016 Increase baby diapers manufacturing capacity in Indonesia

Aug 2016 Increase baby diapers manufacturing capacity in China

Jan 2017 Increase baby diapers manufacturing capacity in Thailand

Thorough cost reduction

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Production division is implementing a “Matrix Organization” structure that strengthens cooperation in order to carry out thorough cost reduction

Leader meeting

For 2nd MTBP "Autonomous Management"

Field manager meeting

Manager meeting

From work to business

→To be able to confront and resolve impending problems (turn them into revenue).
However, only accomplished when instructed by management.



To autonomous management

→To be able to assess and carry out plans autonomously, and recognize problems and achieve goals independently.

Staff meeting

Women's Association meeting



Pursue efficiency and diversity in HR utilisation

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- **Further enliven organization through Diversity Management**
 - Promotion of women's active participation in the workforce (FY2014 **"Nadeshiko Brand"**)
 - Boost of ratio of women in managerial positions and managerial career path (as opposed to clerical career)
 - Boost of rate of acquisition of annual paid leave; cut-down of total working hours
- **Promote globalization measures for the purpose of expanding overseas business**
 - Open recruitment for global talents cultivation programs and overseas assignment
 - Employment of non-Japanese personnel in executives-to-be positions
- **Carry out capability development programs to strengthen leadership skills**
- **Sophisticate and optimize headquarters operations, and seek opportunities for BPO (Business Process Outsourcing)**
- **Promote "a healthy management" (good workplace environment, lifestyle habit, and mental healthcare) to improve productivity**

Further improvement of financial strength

DAIO PAPER CORPORATION

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➤ Governance

- Increase number of wholly owned subsidiaries to strengthen group management
- Implement Consolidated Tax Return
- Take charge of subsidiaries' financing to implement group finance functions

➤ Improve financial strength, secure stable financing

- Improve fund operation efficiency by implementing Cash Management System(CMS)
- Sale of non-core assets
- Cut down working capital
- Issuance of new shares(Jun 2014)

Jul 2014: R&I credit rating promoted to BBB-
Nov 2014: JCR credit rating promoted to BBB

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➤ Cut down interest-bearing debt

- Reduce interest-bearing debt by securing positive free cash flow for each fiscal period

➤ Strengthen cash management, etc. in overseas business

<Finance Strategy>

- **Decrease interest-bearing debt by ensuring positive free cash flow**
 - Decrease working capital
 - Improve intra-group funds efficiency with the development of its cash management system
- **Suppression of financing cost, and achieve stable financing**
 - Improve credit rating
 - Diversify methods of financing through utilizing direct means etc. such as issues of bonds and CP.
- **Selection and concentration of investments**
 - Manage investments within limit of depreciation
 - Proactive investment in growth areas and early fruition of investment benefits

➤ **Development of new raw material**

Cellulose nano-fibre: currently supplying samples, taking part in forums, etc.

➤ **Expansion of engineering business**

Leverage pulp and paper manufacturing know-how to provide operational and maintenance advice to both domestic and overseas manufacturing companies

➤ **Expansion of energy business**

Expand sales of electricity, set up power plant

➤ **Effective use of forestry business**

Create new business opportunities that effectively make use of the land and tree plantations of Forestal Anchile LTDA., located in Chile.

【FY2017 Business Goals】

Net sales	500 billion yen
Ordinary income	25 billion yen
Sales ratio	5%
Net interest-bearing debt	Under 250 billion yen
Equity ratio	28%
Net D / E ratio	1.5 times

Cautions regarding forward-looking statements

- ※ Forward-looking statements such as projections and forecasts on business results included in this document are derived by Daio Paper Corporation (the “Company”) based on beliefs as well as assumptions made using information currently available to it at the time of the release of the original Japanese document (28 May 2015), and are subject to contingencies, risks and uncertainties.

As such, actual future performance and results could differ materially from the statements included herein as a result of latent risks, factors not yet known to the Company or not currently considered material to the Company and its subsidiaries by the Company.