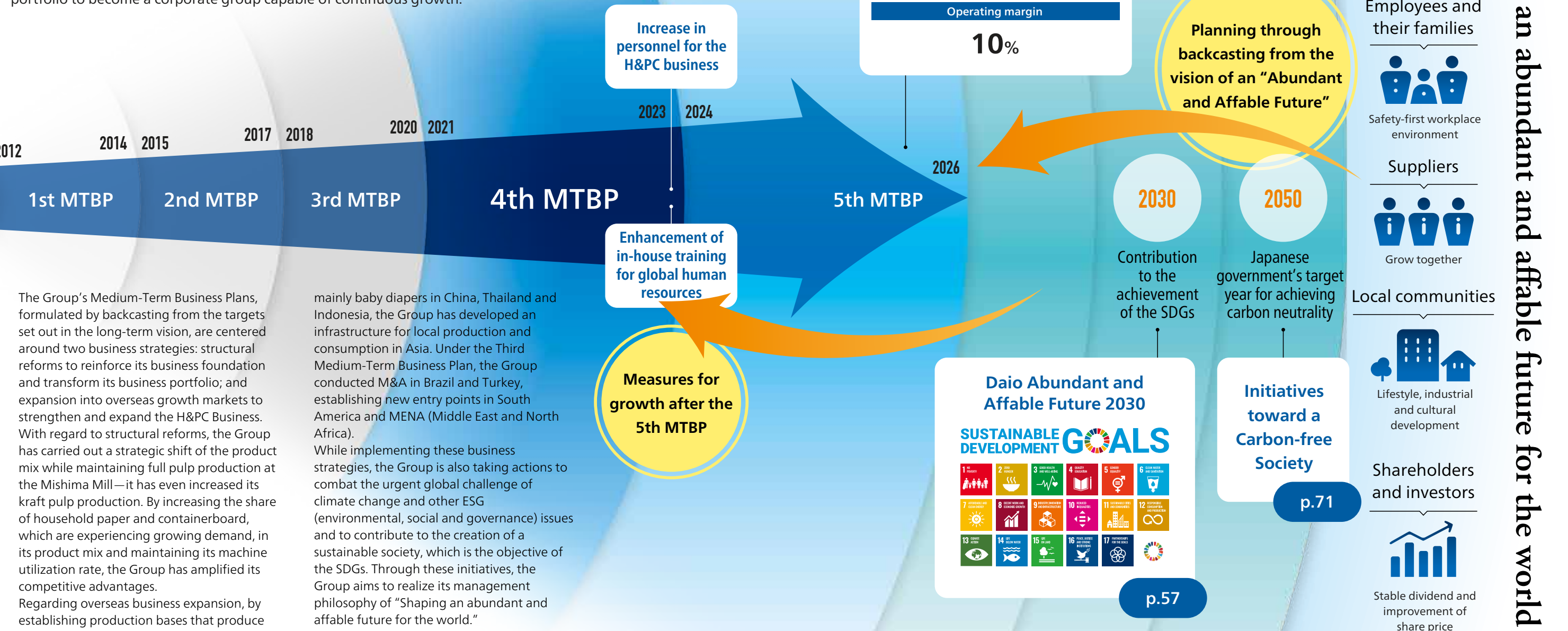


Daio Group's Vision and Medium-Term Business Plans

The Group made a fresh start as the restructured Daio Group in FY2012, and has since primarily pursued structural reforms and overseas expansion under its Medium-Term Business Plans (MTBPs).

The Group set out its long-term vision with specific targets to be achieved by 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.



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

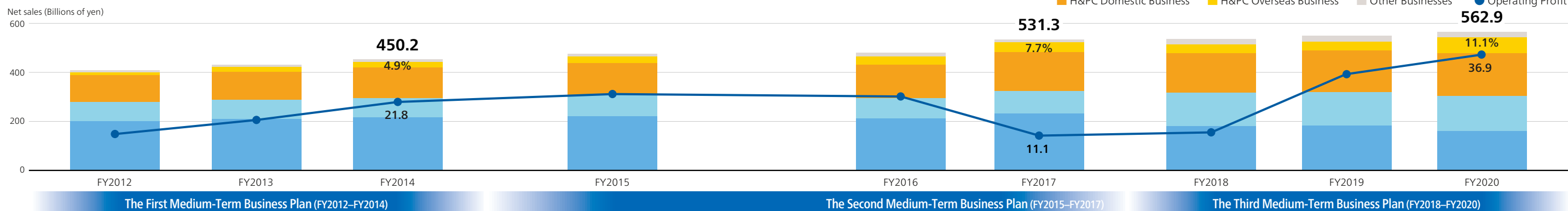


We will actively conserve the environment and regenerate the earth back into a planet with abundant nature where diverse organisms coexist and thrive.

Review of the Medium-Term Business Plans

Over the nine years from the First to Third Medium-Term Business Plans (FY2012–FY2020), the Group achieved significant improvements in business performance through the expansion of the Home and Personal Care (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

Basic Policies

- Rebuilding of business foundation
- Improvement of profitability of the paper business through cost reduction and change in the product mix
- Strengthening of the containerboard and corrugated container business
- Expansion of H&PC Business

- Restructuring of the paper business
- Strengthening of the containerboard and corrugated container business

Step-up —Leap and Expand

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

Move on: Reform and Soar Above

- 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	21.8
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 (D/E) 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 (D/E) ratio	1.6	1.3

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 change 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 restructuring of the paper business and changed 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 of Nisshinbo Holdings, achieving an increase in market share of household paper

products. 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 will 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.

Issues

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

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. 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 the acquisition of Santher S.A. (Brazil) and EITR (Turkey). 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 position

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)
<ul style="list-style-type: none"> 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 M&A in the Home and Personal Care (H&PC) Business Create future growth opportunities through new businesses such as cellulose nanofiber (CNF) 	<ul style="list-style-type: none"> Strengthen cash generating capacity and improve cash flow by capitalizing on the results of structural reforms and strategic investment Promote management conscious of the cost of capital and return on capital by introducing ROIC as a management indicator Obtain and maintain a credit rating of A 	<ul style="list-style-type: none"> 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		
<ul style="list-style-type: none"> Started operating a paper towel machine at the Mishima Mill Started operating the second machine for household paper products at the Kawanoe Mill Entered the pet care products market Started operating a pilot plant for CNF composite resin 	<ul style="list-style-type: none"> Obtained an A rating in September 2021 Selected performance monitoring indicators that link to existing indicators using the ROIC tree Reduced cross-shareholdings (Percentage in consolidated net assets: 6.8% for FY2020, 5.2% for FY2022) 	<ul style="list-style-type: none"> 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 Started using biomass boilers under the FIT scheme for self-consumption Started operating a waste-to-energy boiler at Iwaki Daio Paper Collected information on CCUS technologies including BECCS (Shikokuchuo City Carbon Neutrality Council) Decreased coal purchase quantity (a decrease of 13.6% compared to FY2021)

	1st MTBP (FY2014)	2nd MTBP (FY2017)	3rd MTBP (FY2020)	4th MTBP			Vision for the 5th MTBP (FY2026)
				(FY2021)	(FY2022)	(FY2023 forecast)	
Net sales	450.2	531.3	562.9	612.3	646.2	720.0	800 -1,000
Operating profit (operating profit margin)	21.8 (4.8%)	11.1 (2.1%)	36.9 (6.6%)	37.6 (6.1%)	(21.4)	51.0 (7.1%)	80-100 (10%)
H&PC overseas net sales ratio	4.9%	7.7%	11.1%	12.1%	13.8%	18.8%	30% or above
ROE	10.0%	2.2%	10.1%	9.5%	-14.0%	10% or more	12% or above
Net debt-to-equity (D/E) ratio	1.9	1.6	1.3	1.1	1.6	1.0	1.0 or below

Progress of the Fourth Medium-Term Business Plan

Prioritized investments in the growth-driving H&PC Business

Business segment	FY2021			FY2022			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	Net sales (Billions of yen)	Operating profit (Billions of yen)	Operating margin
Paper and Paperboard	327.4	22.3	6.8%	347.0	(12.4)	-3.6%	370.0	11.5	3.1%
H&PC	257.3*	11.9	4.6%	270.3	(12.6)	-4.6%	300.0	4.0	1.3%
(Breakdown) Domestic	183.2	15.5	8.5%	181.2	(6.5)	-3.6%	200.0	4.0	2.0%
Overseas	74.1	(3.6)	—	89.1	(6.1)	-6.9%	100.0	0	—
Other businesses (including adjustments)	27.6	3.3	12.0%	28.9	3.6	12.5%	30.0	2.5	8.3%
Total	612.3	37.6	6.1%	646.2	(21.4)	-3.3%	700.0	18.0	2.6%

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

Material issues

Strategic transformation of business portfolio

Acceleration of global expansion

Creation of new businesses

P&P Business

Generate sustainable cash flow for growth investment

- Newsprint and paper
- Industrial paper and corrugated containers

Environmental changes

- Further decline in demand for graphic paper due to price revisions and growing environmental awareness
- Expanding demand for packaging paper due to further increase in the desire to avoid plastics
- Expanding demand for packaging paper and corrugated containers due to the revival of economic activity after the COVID-19 pandemic

Thoroughly improve efficiency with the aim of creating a cash cow business

- Improve productivity and profitability at the Mishima Mill, our core paper mill
- Reduce logistics costs by decreasing manufacturing costs and SKUs
- Review the organizational structure to pursue profits (improve proposal capabilities and expand the sales of high-value-added products)
- Capture e-commerce demand and demand generated by a growing trend toward plastic reduction

H&PC Domestic Business

Drive performance as a core business

- Household paper products
- Feminine care products

- Changes in consumer psychology before and after the COVID-19 pandemic (increased awareness of hygiene)
- Expanding demand for health care products due to aging population
- Shrinking demand for baby care and feminine care products due to a decrease in the number of births
- Significant decline in demand for sanitizing wet wipes and masks due to the end of the COVID-19 pandemic

H&PC Overseas Business

Consistently turn a profit and strengthen organizational structure

- Baby care products
- Pet care products
- Health care products

- China's birth population decline (2022: -14% compared to the previous year)
- Intensification of price competition
- Polarization between purchasing psychology focusing on cost performance and on quality

Shift to focus on profitability in existing categories and develop new growth areas

- Improve the accuracy and efficiency of production/sales/inventory (logistics)
- Procure important materials in a stable manner (Produce fluff pulp in-house)
- Strengthen the production and sales of soft pack tissues with growing demand
- Enter the pet care products market, one of the few growing markets in Japan

Enhance marketing functions

Establish new sales subsidiaries

[China] Strengthen profitability by acquiring new customer base for baby care products and expanding feminine care products

[Brazil] Strengthen the revenue base by expanding the lineup of premium products by leveraging our product development capabilities

[ASEAN region] Establish overseas subsidiaries to strengthen sales

[Company-wide human resources strategy] Enhance in-house training for global human resources

New Businesses

Create a third business pillar and promote environmental initiatives

- CNF business
- RFID business (IC tags)
- Initiatives toward carbon neutrality

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

Create future growth opportunities

[CNF business]

Shift from fossil-based materials to naturally-derived materials

[RFID business (IC tags)]

Provide environmentally friendly RFID tags made of paper that does not use plastic film (PET film)

[Carbon neutrality]

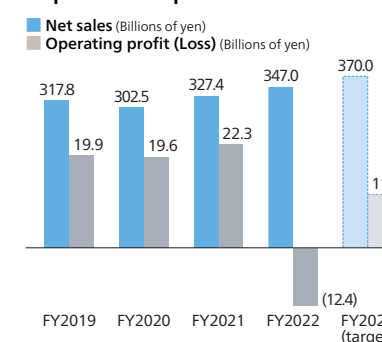
Promote the use of renewable energy to achieve decarbonization

Phase out coal

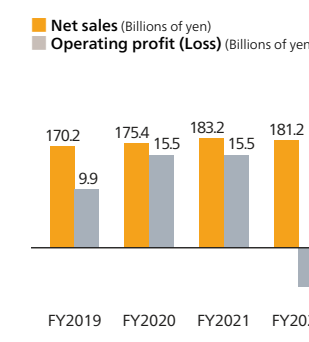
Promote energy conservation, etc.

Net Sales and Operating Profit Results and Outlook by Segment

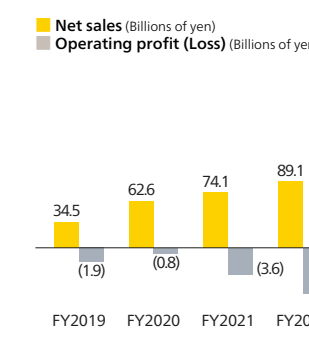
Paper and Paperboard Business



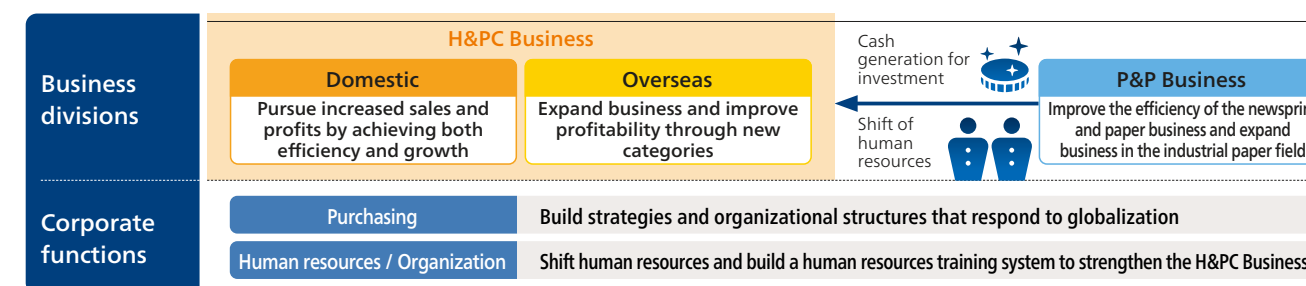
H&PC Domestic Business



H&PC Overseas Business



Building a Foundation for Growth for the 5th Medium-Term Business Plan and beyond



For the Paper and Paperboard Business, we recognize that we now have a system in place that allows us to compete effectively with our domestic competitors as a result of starting structural reforms from the 1st Medium-Term Business Plan. However, the continued shrinkage of demand for graphic paper is inevitable. As a business structure change with an eye to the future, we will significantly shift resources from the Paper and Paperboard Business to the H&PC Business and work to transform our business portfolio in consideration of solving social issues with a stronger determination than ever.

Message from the Officer Responsible for Financial Affairs

Forging a solid return to a growth path to restore our financial health as early as possible toward further business growth

Shuheï Shinagawa

Director
Managing Executive Officer
(General Manager of Corporate Planning Division and
Business Administration Division, Corporate Unit)



Review of FY2022 results

In FY2022, we experienced a rapid deterioration in the business environment surrounding us partly due to significant fluctuations in foreign exchange rates, in addition to sharp rises in raw material and fuel prices in the second half of FY2021. We implemented various measures to minimize the downside impact of such environmental changes on our business performance. Specifically, we revised our product prices multiple times, mainly in the Paper and Paperboard Business, our core business. While striving to procure raw materials and fuels stably, we also devoted all-out efforts to minimizing the impact of soaring costs for coal, which could have a massive impact on our business

performance, by reviewing our coal sourcing areas and the types of coal we would use. However, we were unable to offset the cost increase. As a result, FY2022 was a very tough year for us in terms of profitability, as seen by the fact that we recorded an operating loss for the first time since our listing. Facing challenges in generating cash through our core operations, we worked on generating cash outside our core business, including reducing inventories and downsizing strategic cross-shareholdings. This helped us maintain a sufficient level of liquidity and stabilize our cash flow.

Basic policies on financial strategy

We anticipate that uncertainty will persist in our business environment going forward, but there will be no change to our basic financial strategy from the previous fiscal year. To maintain liquidity even in such an uncertain situation, we have adopted a policy of diversifying our financing means while continuing to use indirect funding (borrowing from financial institutions) as a stable means of financing. We had set a target of raising the ratio of direct funding (from corporate bonds and commercial paper) out of all interest-bearing debt to 20% by the final year of our 4th Medium-Term Business Plan (MTBP), and to 25% by the end of the 5th MTBP. However, we opted not to issue corporate bonds in

FY2022 in consideration of the rapid deterioration in the business environment, which has made it difficult for us to meet our initial target. From FY2023 onward, we will raise the ratio of direct funding again by actively issuing corporate bonds in conjunction with improving profitability, thereby increasing the amount of available funds for the 5th MTBP. In addition, in anticipation of a further increase in investments for achieving carbon neutrality in the future, we will explore financing options such as transition finance. The net debt-to-equity (D/E) ratio, for which the target is 1.0 or lower, deteriorated from 1.1 as of the end of March 2022 to 1.6 as of the end of March 2023 due to

the decline in our business performance. Although we will not change our net D/E ratio target of 1.0 or lower, the achievement of this target is expected to be delayed until the 5th MTBP period or later. Securing free cash flows for medium- and long-term growth has become very important. We will achieve this through the dual approach of improving capital efficiency and bolstering cash generation. We believe that our sustained efforts to improve our financial health and lay a solid foundation for growth and expansion investments will lead to an improved financial position of the Daio Group.

As for ratings, we have set a target of obtaining a credit rating of “A” from the Japan Credit Rating Agency (JCR) and Rating and Investment Information, Inc. (R&I) during the 4th MTBP period, and we obtained “A”

ratings from both agencies in FY2021 for the first time. The key to maintaining these ratings is to generate cash from our business activities and get back on a growth track. It is also necessary to improve our capital efficiency and demonstrate our potential for future growth. The impact of the inflated raw material and fuel prices has been declining from its peak. We expect that price revisions made in FY2022 will make a positive contribution to our business performance throughout FY2023. Our business performance is therefore recovering steadily. Furthermore, we will improve our profitability and demonstrate our potential for future growth mainly in the Home and Personal Care (H&PC) Business in Japan and abroad, which is a growth engine for us.

Financial responses to expanded overseas transactions

I believe that the expansion of business operations and transactions outside Japan entail three major kinds of risks. First, when expanding business abroad, we face risks associated with capital recovery and reduced capital efficiency. Factoring in international tax treaties, along with the laws and regulations applicable in foreign jurisdictions, we recognize that it is essential to establish an optimal system for fund distribution and repatriation. We are also examining the feasibility of establishing regional headquarters in the future for the efficient allocation of surplus funds built up at overseas bases. Moreover, we are actively developing an emergency response policy while responding to current geopolitical risks, such as those related to the war in Ukraine.

Secondly, international trade transactions and the expansion of overseas investments entail foreign exchange risks. To mitigate foreign exchange risks, we incorporate forward exchange contracts into certain transactions denominated in foreign currencies, such as import transactions. Furthermore, since FY2023, we have broadened the scope of transactions and currencies to which forward exchange contracts apply to reduce cost fluctuation risks. Likewise, in overseas

investments or meeting the funding needs of our overseas subsidiaries, we are taking measures to directly secure funds in local currencies. This is in addition to parent-to-subsidiary loans from Japan, with the objective of mitigating the impact of exchange rate fluctuations on our financial performance. The third kind of risk is related to the governance of overseas subsidiaries. We devote serious efforts particularly to preventing fund-related frauds such as embezzlement and misappropriation. While we have a plan to roll out a global cash management system (GCMS), the implementation will be deferred. At present, our priority is on reinvestment and we recognize that an immediate introduction of a GCMS is unlikely to offer substantial improvements in capital efficiency. Nevertheless, we are actively working to establish and maintain a robust management system that prevents the formation of the fraud triangle (opportunity, motivation, and rationalization) and have already put in place various governance enhancement measures. These include utilizing specific functions of the GCMS to visualize account information, minimizing cash on hand, and distributing workflow responsibilities to prevent concentration of power in a single person.

Vision for asset allocation toward sustainable growth

With the intent of making the H&PC Business in Japan and abroad a key driver of profit growth, we will rebalance the allocation of various resources. The overseas business in particular is expected to achieve significant growth under the 5th MTBP, so we must make growth investments, including investments in M&A. We plan to utilize the stable cash flows generated by the Paper and Paperboard Business to fund our growth investments and our goal is to establish and

realize a sustainable growth cycle while making steady progress in structural reforms. One of our strengths lies in having packaging paper and household paper products, which will remain in relatively firm demand, as mainstays in our product lineup. This sets us apart from those heavily reliant on graphic paper, for which demand will decline in the future as more people are transitioning toward paperless practices in both work and lifestyle, among other factors. Another important

asset of ours is the sales skills that we have developed while establishing an integrated system for producing and selling a whole range of paper-related products, from pulp as an upstream product in the industry to B2C products, such as household paper, which are final downstream products. While leveraging these strengths of ours, we will also allocate growth funds to businesses in new fields, including Cellulose Nanofiber (CNF) and products that will contribute to a reduction in plastic

use, and foster them as new business pillars. Furthermore, pressing global trends toward action for sustainability have necessitated us to shift away from our conventional coal-centered energy policy. To invest in decarbonization and deliver returns to our shareholders, we commit to ensuring that even our growth fields, such as the H&PC Business and its overseas business, will generate operating cash.

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

Up until recently, we mainly used income-statement-based indicators as KPIs for business management, and made decisions on each investment project in consideration of such factors as the payback period and the final return rate. While this approach certainly allowed us to make quick decisions, we recognized the need to incorporate a capital-cost-related indicator in our investment decisions in order to more accurately respond to the current business environment, which is marked by growing uncertainty. Therefore, we began to use return on invested capital (ROIC) as a management KPI under the 4th MTBP.

By expanding the adoption of ROIC throughout the Group, we seek to foster a shared awareness among the management team and staff. The Corporate Planning Division is leading efforts to promote the use of ROIC across the Group. We're actively tackling the challenge of enhancing staff awareness of ROIC by carrying out awareness-raising activities, leveraging the ROIC tree to break down ROIC into its elements. This will vividly illustrate the link between these elements and the current departmental indicators in use. For instance, sales staff currently rely on indicators like selling

prices, marginal income ratio, and the percentage of unsold long-term inventories. To further familiarize each business group's staff with the ROIC tree, we're conducting workshops to demonstrate how their indicators directly contribute to increasing ROIC. Moving forward, as we progress with ROIC-driven management, we aim to optimize resource allocation and business portfolio, as well as improve our capital efficiency and make better investment decisions. In addition, in May this year, new business withdrawal criteria were formulated and adopted under the leadership of the Corporate Planning Division. These withdrawal criteria are not intended to encourage withdrawal. Their key aim is to support the reconstruction of any struggling business or subsidiary. This would require the involvement of not only the pertinent business group but also the participation of the Corporate Planning and Business Administration Divisions in devising countermeasures. It is only when every conceivable effort toward reconstruction has been exhausted, and it is still considered difficult to reconstruct such a business or subsidiary, that we will execute the appropriate withdrawal procedure.

Investments in environmental initiatives, human resource strategy, and intellectual property strategy

During the 3rd MTBP period, we made capital investments of 175 billion yen (or over 200 billion yen if M&A investments are factored in) with high leverage, while implementing structural business reforms mainly at the Mishima Mill. As a result, we were able to carve a growth path. During the 4th MTBP, while envisioning further progress in our growth strategy, we are continuing to work on the improvement of financial strength as one of our three basic policies. Therefore, our budget for investments, including M&A investments, has been reduced from that for the previous MTBP to 155 billion yen. However, our deteriorated financial results for FY2022 have brought our efforts to improve financial strength to a standstill. In light of this situation, I recognize that, under the 5th MTBP, which will start in FY2024, we will need to focus

our growth investments on more carefully selected targets. Meanwhile, from a medium- to long-term perspective, we must make growth investments in energy transition to break away from our dependence on coal. We predict that the introduction of carbon pricing in FY2028 or later will cause a gradual decline in profits and cash flows from the Paper and Paperboard Business. I am therefore aware of the need to incorporate decarbonization-related risks into our investment evaluation and decisions. In the field of human resources, we are facing the urgent challenge of developing globally effective human resources in preparation for overseas business expansion. Alongside offering training, including language learning, we are partnering with the General

Affairs and Personnel Division to roll out a strategy that offers our employees career paths that involve overseas assignments within a few years of joining the company. We are also exploring the possibilities of recruiting globally effective human resources from outside. Moreover, we are working to shift human resources from the Paper and Paperboard Business to the H&PC Business. The efforts that the Paper and Paperboard Business has made in organizational integration and efficiency improvement since the 1st MTBP have allowed it to compete effectively with its competitors in Japan with a small but competent staff.

We are planning to have the Paper and Paperboard Business continuously pursue efficiency with a small but competent staff, and to scale out its know-how to the H&PC Business. Our efforts in intellectual property strategy are focused on innovations in priority fields, such as the H&PC Business, CNF and other new materials as new business fields, and environmentally friendly products that help reduce plastic waste. In conjunction with our overseas business expansion, we are devoting sustained efforts to augmenting our global portfolio of intellectual property, thereby enhancing our brand value globally.

Vision for shareholder return

Positioning 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, internal reserves, and other factors. From the perspective of ensuring stable dividend payments based on equity, we have used the dividend on equity ratio (DOE) as an indicator since FY2021. Our medium- to long-term target for DOE is 2.0%.

Mainly because we recorded a loss attributable to owners of parent for FY2022, we regrettably reduced the dividends for that year. As a result, DOE deteriorated from 1.5% for FY2021 to 1.1% for FY2022. For FY2023, we plan to continue to pay the same level of dividends as in FY2022. This is regrettable; however, we aim to increase dividends by improving our profitability as early as possible with a view to achieving our medium- to long-term DOE target of 2.0%.

Message to stakeholders

Our price-to-book ratio (P/B ratio) remained at a level of approximately 1.0 until the end of March

2022, but it has recently continued to fall below 1.0. We recognize improving the P/B ratio as a major challenge we should solve. We acknowledge that the delay in improving the profitability of the H&PC Business is the main cause of the decline in our corporate value. We believe that the key to achieving a breakthrough in this situation and improving our corporate value is to clearly demonstrate to all stakeholders an obvious improvement in our profitability and remarkable progress in our overseas business expansion, which will naturally result in an increase in our P/B ratio. We will work to restore our profitability as soon as possible with a view to realizing corporate management that is conscious of the cost of capital and the stock price. We will also continue our efforts in investor relations (IR) activities to have constructive dialogue with our shareholders and investors about such topics as our views on the P/B ratio, the price-to-earnings ratio (P/E ratio), and the cost of capital, thereby incorporating their opinions into our corporate management. By adopting these measures, we will strive to further increase our corporate value. We look forward to the continued support of our stakeholders.



Toward Achievement of the Targets of the Fourth Medium-Term Business Plan

Paper & Paperboard Unit

Newsprint Sales Division and Paper Sales Division Paper & Paperboard Business Group

● Message from the General Manager of the Business Group

We will further enhance our integrated operations through organizational reforms, and increase the added value of our products and the efficiency of our operations with the aim of improving our profitability.

Atsushi Ishida

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



Future vision of these divisions

In FY2022, in face of raw material and fuel prices soaring and remaining high, we found ourselves in the unprecedented situation of having to revise the selling prices of our newsprint and paper products three times. As a result, our profitability improved, but the increased prices of our products caused a drastic decline in demand. We believe that, in view of the future, we need to further accelerate our efforts in product-mix shifts and structural reforms, which we have resolutely launched. Until FY2022, with 19 paper machines in operation, the Mishima Mill, our core mill, used to produce approximately 2.1 million metric tons per year. However, in response to reduced demand, we implemented paper machine conversion and adjusted our product mix. Furthermore, in April 2023, as the downturn in demand intensified, we made a pivotal decision to cease the operation of a newsprint paper machine. This decision was based on our judgment that it would be better to trim energy costs by stopping the machine than to keep it running on a reduced scale. We will continue to resolutely execute such structural reforms and optimize the balance between production, sales, and inventories, with the aim of maintaining the profitability of the entire mill.

Business results for FY2022

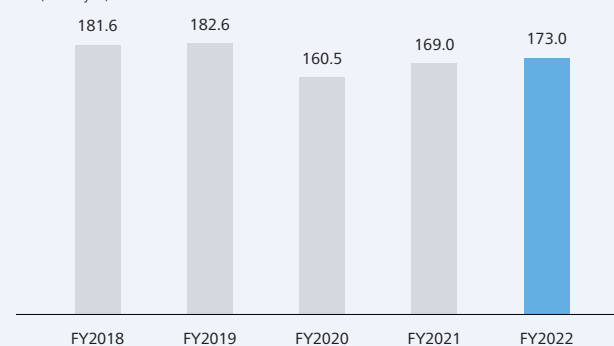
For FY2022, the Paper & Paperboard Unit as a whole achieved sales of 347 billion yen, but recorded an operating loss of 12.4 billion yen. In the newsprint and paper business, sales volume decreased due to the falling circulation of newspapers and declining demand for graphic paper, but our efforts to revise selling prices resulted in an increase in the amount of sales year-on-year. However, this increase was not adequate to offset the increase in production costs caused by the soaring raw material and fuel prices, resulting in a decrease in operating profit year-on-year. The situation whereby the high raw material and fuel costs caused the profitability of paper in general to decline made it difficult for us to earn profits, particularly from paper containing a high percentage of virgin pulp. Since the production cost for this kind of paper is higher than that for paper containing recovered pulp due to the difference in the cost of the

pulp production, we had to raise the prices of our newsprint and graphic paper products three times during the year, while we raised the prices of our paper products with a high content of recovered pulp only twice. Although we fell into the red in FY2022, we predict that the progress of not only such selling price revisions but also product-mix shifts and product integration through structural reforms will enable us to return to the black in FY2023.

Daio Group's strengths and challenges

I believe that the major strength of our Group lies in integrated operations. The way we hold and share necessary information beyond departmental and company boundaries consistently has enabled us to proactively propose total product and service solutions in response to customers' requests and questions. The Newsprint and Paper Business Group and the Industrial Paper and Containerboard Business Group have recently integrated into one business group. We aim to increase the sales volume of profitable products in the future by enhancing our marketing activities encompassing all types of products through integrated operations. Our ability to conduct sales activities across our entire product lineup means that we can serve as a one-stop provider of all types of paper that customers need from a market-oriented perspective, thereby

■ Net sales of the Newsprint Sales Division and the Paper Sales Division (Billion yen)



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Major products



Examples of final products using mixed-pulp paper that contains residues

Rems, a system for accepting orders for mixed-pulp paper —Reusing residues of production processes as a raw material for paper—



[Socially conscious product]
Tasukeal-no-wa+ copy paper, 1% of the sales amount of which is donated to the Japan Committee for UNICEF

● Development of the product lineup

In October 2022, Rems products were newly added to Daio Paper's product lineup. "Rems" is the name of a system whereby paper is made by mixing residues, such as rice husks and coffee grounds, in pulp fiber. Although some particles appear on the surfaces of paper sheets, this system for producing mixed-pulp paper containing residues that otherwise would have been disposed of contributes to the effective use of resources. The residues that are used in this system are provided by other companies and organizations. We mix those residues in pulp to recycle them into new paper. We have received a lot of requests for the utilization of residues of production processes to produce mixed-pulp paper for many years, so the Rems system has enabled us to meet such requests in a timely manner. Many companies and organizations have made inquiries to us about this system during the very short period since its launch.

evolving our sales organization. In terms of production, the Mishima Mill, our core mill, is unique in that it manufactures all types of paper in one site. This provides us with a distinct advantage, allowing us to adjust our production and product mix easily and agilely. Having a printing company in our Group benefits us by allowing us to receive feedback on user needs. We are testing a business model of elevating the value of printed materials by innovating value-added paper that enables value-added printing, with the aim of increasing the added value of our printing company. Ultimately, our goal is to scale out this model to other printing companies, and establish a process whereby our customers will consistently choose and purchase our paper products. On the other hand, we are facing a logistical challenge. The progress of our shift from graphic paper, which is in declining demand, to industrial and household paper products has caused drastic changes in the total weight of our products. Such a production shift is likely to have an impact on logistics, impeding us from completely transporting our products and thereby causing us to lose business opportunities. Therefore, we will foster collaboration in logistics in such forms as mutually supplementing logistics together with customers and shipping products jointly with companies in other industries. By doing so, we aim to devise effective measures, including securing return cargos, to overcome the logistical challenge we are facing.

Views on the current market environment (opportunities and risks)

The COVID-19 pandemic accelerated digitalization and the shift from graphic paper to electronic devices. We had anticipated a certain level of decline in demand due to the progress of digitalization. However, the rises in raw material and fuel prices and their subsequent prolonged high levels triggered by the Russian invasion of Ukraine have had an impact on our profits, forcing us to revise our selling prices, which has caused us to severely suffer from a more serious decline in demand than expected. The risk of price revisions creating general trends toward avoiding immediate purchase and resulting in the shrinking of the market is common to all companies in our industry, including ourselves. Nevertheless, I believe that our strengths—integrated operations, our

ability to produce a wide range of paper products at the Mishima Mill, which is located in a coastal area, and our sales system in place for flexible development—will enable us to differentiate ourselves from our competitors and create business opportunities even amid the decline of the entire industry. I predict that price revisions and growing public environmental awareness will continue accelerating the decline in demand for graphic paper. However, we will work to take advantage of trends toward plastic-free lifestyles and create new demand for paper products, including environmentally friendly ones.

Resolving social issues through our business

Streamlining logistics is a major challenge for us to solve, but tackling this challenge will also lead us to reduce greenhouse gas (GHG) emissions. I believe that, against a backdrop of recently mounting concern about a shortage of drivers, we can make further progress in contributing to the achievement of the SDGs by streamlining logistics. We will be able to not only reduce logistics costs but also build win-win relationships with customers who have bought our paper products, by cooperating with them in sharing return cargos to be loaded onto carriers. We have also contributed to environmental conservation by effectively recycling recovered paper into Forest Stewardship Council (FSC)-certified paper and other products. At the Mishima Mill, efforts are under way to reduce production costs by stopping a large paper machine and rebuilding the production system. We are also working to reduce coal usage at the mill by adopting energy-saving measures and switching the biomass power that we generated and sold externally through the feed-in-tariff (FIT) program to in-house consumption. We will also devote efforts to developing products that help reduce plastic waste, for which demand is expected to further grow significantly in the future, to fulfill the Daio Group's Management Philosophy: "Shaping an abundant and affable future for the world." We will contribute to the creation of a sustainable recycling-oriented society based on the shared recognition that promoting the effective use of recovered paper and other resources will also lead to the achievement of SDG 12: Responsible Consumption and Production.

Paper & Paperboard Unit

Paperboard Sales Division and Packaging Paper Sales Division Paper & Paperboard Business Group

● Message from the General Manager of the Business Group

We will increase the sales volume of profitable products by establishing a new Direct Demand Department, which can propose paperboard and plastic-reducing products in combination.



Atsushi Ishida

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

Future vision of these divisions

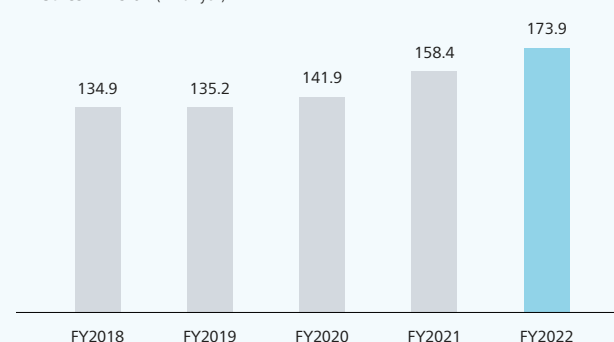
In April this year, we established a new Direct Demand Department in the Paperboard Sales Division as an organization that proposes a total package of solutions, including not only containerboard and corrugated containers but also packaging paper, to end users. This organization embodies a Group-wide style of proposing a wide variety of paper products, including packaging paper and functional materials, transcending boundaries between product types. I recognize its establishment as one of the highlights of our FY2023 activities. We hope to use this new approach to organizational reforms as a model case to be scaled out in the Group, rather than limiting it only within the Paperboard Sales Division. The Direct Demand Department is currently in charge of proposing a total package of solutions, including corrugated container, packaging paper, and paper bags, but we hope to broaden the lineup handled by the Direct Demand Department to include newsprint and graphic paper products, such as printing paper, in the future. The Direct Demand Department started with 10 staff members. However, since the Paper & Paperboard Business Group has a sales workforce of about 300, we are considering the ultimate possibilities of engaging all sales staff members in marketing all types of products. While proposing a total package of solutions to end users in cooperation with converting companies, we focus on building networks by promoting not only product-related measures but also logistics measures, such as joint shipment and the utilization of return cargos after delivery.

Business results for FY2022

For FY2022, these two divisions collectively achieved the expansion of their business scale and an increase in net sales year-on-year, but experienced a decrease in operating profit year-on-year despite selling price revisions made in response to the sharp rises in raw material and fuel prices. This decrease can be explained by a delayed pass-through of the increase in raw material and fuel costs. I recognize that the key challenges we should solve in FY2023 include not only expanding the downstream corrugated container business and making a quick pass-through of the cost increase, but also implementing initiatives to increase the added value of our corrugated

containers themselves. We will differentiate ourselves by providing added value that other corrugated container companies cannot, such as designs that increase the value of the corrugated container itself and its content, with a view to increasing the prices of the corrugated container products themselves, thereby improving our profitability. In FY2022, we revised the prices of corrugated container products twice, but we should have increased prices within a few months after the price hike of containerboard. In reality, last fiscal year, it took about half a year for us to pass on the material cost increase to selling prices, resulting in an increase in net sales and a decrease in operating income in the corrugated container business. We have already almost succeeded in rolling out our cost pass-through efforts, which we expect to make a positive contribution to sales throughout FY2023, enabling us to achieve a year-on-year increase in both net sales and operating profit. Under the upcoming 5th MTBP, the Daio Group as a whole will adopt a policy of enhancing its overseas businesses, mainly the overseas Home and Personal Care (H&PC) Business. In addition, the plan also envisions overseas expansion of the corrugated container business in the future. During the 5th MTBP period, we will not only enhance our businesses in Japan, but also make a strong commitment to expanding our businesses abroad. The Overseas Business Group of the H&PC Unit currently has factories in China, Thailand, Indonesia, Turkey, and Brazil. Those factories use a huge volume of corrugated containers. We will consider the possibilities of producing corrugated containers locally, including M&A of corrugated container factories.

■ Net sales of the Paperboard Sales Division and the Packaging Paper Sales Division (Billion yen)



Fulfilling Our Purpose

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Achieving Sustainable Growth

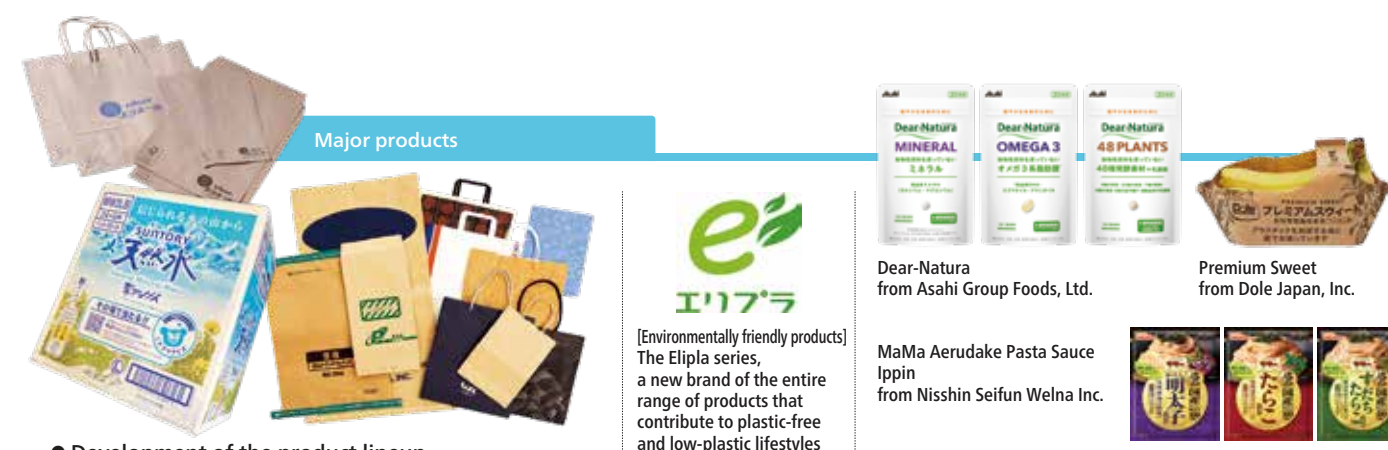
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● Development of the product lineup

Daio Paper's environmentally friendly products include the Elipla series, a series of products that contribute to plastic-free and low-plastic lifestyles. This series started with stir sticks, but its lineup has so far been dramatically expanded and enriched to include hangers and toothbrushes, as well as spatulas for use by cosmetics companies or as disposable amenities, all of which are made of FS Elipla Paper intended to serve as an alternative to plastic. FS Elipla Heat Seal, an alternative to film, is used in packaging products for foods, including fried foods such as donuts. We have also received an increasing number of customer requests for packaging paper that contains recovered pulp or is certified by the Forest Stewardship Council (FSC). In 2020, we launched envelopes and paper bags made of FS Unbleached Recycled Paper 100, which is FSC-certified paper made from 100% recovered pulp. During the past year, the number of inquiries made to us regarding these products has been soaring, resulting in more widespread use of this recycled paper. We recognize that the main factor behind such a strong interest in this kind of product is changes in environmental awareness of the general public. Even luxury brands use this kind of paper for bags for sample products.

Daio Paper's strengths and challenges

As embodied by the newly established Direct Demand Department, one of our strengths lies in our Group-wide integrated organizational operations. Against a backdrop of growing social demand for plastic waste reduction, we established the Direct Demand Department to have a system in place for proposing both containerboard and the plastic-reducing Elipla series at the same time, which has made it easier for us to meet customers' needs and their requests for products that facilitate their environmental activities. We will make maximum use of our Group's power to propose total solutions ranging from upstream products to downstream final products in order to increase our sales. One of the strengths of our business group lies in our alliances and networks with independent converting and processing companies, as well as with other departments within the Group. Such challenges as addressing logistics issues, reducing GHG emissions, and realizing closed-loop recycling are difficult for us to solve alone, and require us to build networks. Horizontal recycling, whereby used items are recycled into the same kinds of items, has recently been a focus of growing public attention. In the paper industry as well, it is now possible to collect used paper and recycle it into paper for the same use. We would not be able to implement this initiative without our networks with converting and processing companies, as well as with end users. We hope to propose solutions with higher added value to our customers from now on.

Views on the current market environment (opportunities and risks)

It is said that demand for industrial paper, such as containerboard and packaging paper, generally remains firmer and more stable than that for newsprint and graphic paper. For example, the expansion of e-commerce and the increased proportion of nuclear families have caused the downsizing of product packages. The downsizing of corrugated containers means an increased amount of containerboard used. In addition, containers for vegetables, fruits, beverages, and processed foods account for about 60% of the corrugated container market. Demand for food products is stable, so in that sense, the containerboard market is firmer and more stable than

the market for newsprint and graphic paper. However, since October 2022, demand for containerboard in Japan has remained lower than in previous years. Since December of the same year, the country has also been seeing lower demand for packaging paper than in previous years. I suppose that factors behind such weak demand for packaging materials in Japan include reduced demand due to price increases, the declining birthrate, and the decrease in the number of international tourists to the country. Now that the COVID-19 pandemic is approaching an end, there is a potential for recovery in the number of international tourists and in demand. Nevertheless, amid the general trend toward a population decline, we should anticipate the risk of a subsequent decrease in demand for packaging materials, which has remained firm and stable thus far. I basically believe that it is important for us to increase the added value of our products so that we will be able to take advantage of even such a risk as an opportunity. Our business group will shift the focus of our sales style from quantity to quality. For example, we may provide the kind of paper package that makes its content look better and more luxurious, rather than being a mere box for transportation. By adopting such approaches, we will help increase the value of the products contained in the packages we provide, which will have an impact on the selling prices of those products, hopefully leading to our paper products being purchased at the prices that they more truly deserve.

Resolving social issues through our business

Corrugated containers and paper bags are 100% recyclable, environmentally friendly packages. We will devote efforts to further reducing our environmental load by increasing the ratio of recovered pulp contained in our products and utilizing hard-to-recycle recovered paper, which has been disposed of as waste thus far. Furthermore, in anticipation of continuing steady growth in demand for products that contribute to plastic-free and low-plastic lifestyles, we will continue to develop such products. At the same time, we will also build networks and collaborate with external parties in promoting various initiatives, including those to realize horizontal recycling and to solve the so-called "2024 issue" in the Japanese logistics industry, that is, the issue of truck driver shortages expected to be exacerbated by an upper limit that will be imposed on the working hours of drivers in 2024.

Home & Personal Care Unit

Domestic Business Group

● Message from the General Manager of the Business Group

Our vision is focused on carrying out structural reforms in what we already have in order to generate maximum profits at minimum costs.

Hiroyuki Fujita

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



Future vision of this business group

The Home & Personal Care (H&PC) Business Group is committed to enhancing activities aimed at generating maximum profits at minimum cost and initiatives to accelerate business growth through M&A. Last fiscal year, our focus was on achieving results cost-effectively, in the face of the difficulty in remaining profitable and the increase in raw material and fuel costs. For example, we adopted the approach of sharing information about our social contribution projects with the general public to raise general awareness of our products, while arousing our customers' empathy. I believe that our sustained efforts to scale out such approaches toward the 5th MTBP will become the core of our next future vision. In October last year, we acquired shares in Daiki Co., Ltd., a manufacturer and distributor of cat litter. We will enter the pet care business on a full scale in the second half of FY2023. Our basic business model was to earn profits through making capital investments in our own facilities. However, in a situation where we have to limit such capital investments, M&A could serve as an effective method to acquire know-how in new ventures, which not only enhances our brand power but also quickens and streamlines the process of establishing and nurturing new businesses. Therefore, we will keep in view the possibility of utilizing M&A to accelerate our business growth.

Business results for FY2022

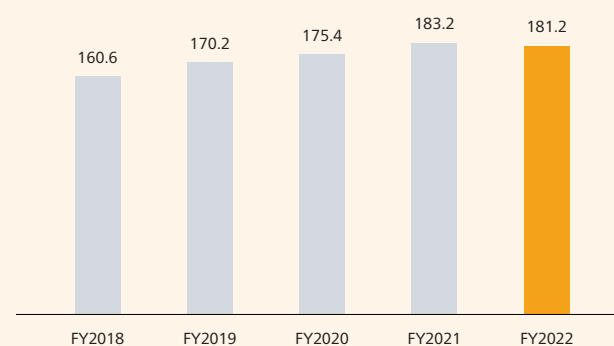
For FY2022, the Domestic Business Group of the H&PC Unit recorded sales of 181.2 billion yen, a decrease of 1.1% year-on-year, and an operating loss of 6.5 billion yen. The main factor behind the operating loss was a loss of several tens of billions of yen caused mainly by the sharp rises in raw material and fuel prices, which we were ultimately unable to completely offset throughout the year even with selling price revisions and major structural reforms. In preparation for FY2023, we slowed down our pace of launching new products and resolutely implemented no-holds-barred measures, including changing product specifications and reducing costs, to increase the profitability of each product. Additionally, the market positively responded to the price revisions we made throughout 2022. We

believe that the outcomes of these measures will significantly contribute to improving our operating profit for FY2023, thereby enabling us to achieve the financial targets. Furthermore, in April 2023, we established a new Structural Reform Promotion Division to speed up our responses to the revamped mission-critical system based on our achievements during FY2022. This division was established as a new organization that would work collaboratively across departments in charge of sales, marketing, IT systems, and logistics, as well as mills and factories. Its primary focus for FY2023 and toward the 5th MTBP is on increasing efficiency, sales, and profits through structural reforms of existing resources, equipment, and personnel without requiring additional investments.

Daio Paper's strengths and challenges

Daio Paper's strengths lie in its exceptional capability to meet the demand for household paper products and its facilities that can adapt flexibly to changes in the market situation. Our efforts to adapt to lifestyle changes have enabled us to shorten the preparation period for the launch of new regular or limited edition products, thereby increasing our ability to adapt to changes in the market. In addition, our efforts to make maximum use of the brand power of Elleair and increase its affinity with other product categories have contributed to sales expansion. Elleair's high brand

■ Net sales of the Domestic Business Group, H&PC Unit (Billion yen)



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● Development of the product lineup

In FY2021, we worked to increase the sales ratio of new products. By contrast, in FY2022, we slowed down our pace of launching new products and switched our direction to increasing the added value of products and present the appeal of each product compellingly during business talks. In addition, as a strategy for expanding the settings for use of our products, we developed a product series in collaboration with a popular outdoor brand. Our sanitizing products are typically used at home, especially during the COVID-19 pandemic. Going forward, we hope customers would also use them in outdoor activities, such as camping. To this end, we have also increased where this series is placed on shelves in stores, placing them on shelves for camping goods as well as instore fairs, in addition to sections for sanitizing products. In this way, we have been implementing further novel initiatives. Meanwhile, we believe that we will be able to reduce our stock, promote optimal logistics, and improve production efficiency by accelerating our efforts to reduce the number of stock keeping units (SKUs) in parallel with launching various limited edition products seasonally. Moreover, in the growing elderly care products market, we hope that our Attento brand disposable incontinence underwear products, which are developed with the tag line, "For better comfort," as well as in collaboration with Wacoal Corporation, can provide consumers with a bright future where they can casually try on and wear them out with a smile.

recognition nudges consumers toward choosing our elderly care products, masks, and wipes by appealing to their fondness for our family brand. Furthermore, we will also leverage our strengths to develop the pet care product business into a new growth field in anticipation that, in the pet care goods industry, one of very few growth markets in Japan, we will be able to produce a lot of synergetic effects using our existing technologies and in terms of production technology and raw materials. On the other hand, we have also striven for sales expansion through low-cost marketing in various projects, resulting in opportunities for consumers to learn about our products. I also believe that our joint research on the feasibility of a disposable diaper recycling business will give us a differentiating factor to set us apart from other companies, against a backdrop of further growing public environmental awareness in the future.

Views on the current market environment (opportunities and risks)

Incineration of used disposable diapers requires a large amount of energy. In the super-aging Japanese society, the volume of disposable diapers consumed per se is rapidly increasing. Therefore, it can be predicted that the issue of disposal of disposable diapers will become more serious in the future. Under these circumstances, Daio Paper aims to establish a unique environmentally friendly business model. In June last year, we launch a joint research initiative with Livedo Corporation and Total Care System Co. to explore the possibilities of establishing the recycling of disposable diapers as a business. By establishing a system for the recycling of used disposable diapers and insourcing the manufacture of fluff pulp, we aim to launch a horizontal recycling process for disposable diapers, whereby a mixture of fluff pulp and recycled pulp will be used to manufacture Daio Paper disposable diapers. Furthermore, we have already established a material recycling process that utilizes production rejects and scraps from the manufacture of household paper products and disposable diapers to produce cat litter. This form of diaper recycling as an environmentally friendly business model, which also includes a strength entirely unique to us, will also help enhance our brand value as an initiative for sustainable product recycling. Now that the COVID-19 pandemic is reaching an end,

consumer buying behavior and awareness is changing. Demand for such products as masks and wipes is predicted to decline from now on, so we will consider marketing products to replace them. Amid an accelerating population decline in Japan, the markets for baby care and feminine care products will inevitably shrink. Therefore, it is important for us to shift our resources to promising growth markets, such as the elderly care and pet care markets. The depreciation of the yen and the sharp rises in raw material and fuel prices appear to have begun to fall from their peaks since the beginning of FY2023. As the industry leader in the household paper category, we will continue our efforts to stabilize the selling prices of household paper and other personal care products, thereby raising ourselves to a higher position in the industry.

Resolving social issues through our business

One of the important themes that our business group is pursuing is to solve social issues of particular concern to us—including gender equality, period poverty, long-term care issues due to population aging, and a decline in close in-person contact triggered by the COVID-19 pandemic—through our business activities. The "meet my elis" project, which has been ongoing since last year, embodies our desire to create a society where no one has to forgo something they want to do just because they are having a period. This project also recognizes that those who menstruate encompass a diverse range of identities. The period product provision program that we launched under the project offers a solution to period poverty during the COVID-19 pandemic. The "Egao-ni Touch" Project is aimed at resolving the issue of the decline in close in-person contact triggered by the pandemic. In this project, we are conducting activities that respond to people's concerns and questions about close in-person contact while acknowledging the heightened hygiene consciousness. Moreover, as part of our efforts to reduce plastic waste, we are replacing plastic packaging for some Kirekira! products with paper packaging. As a paper manufacturer, we will place high priority on working on environmental improvement by providing alternatives to plastic and make a meaningful contribution to society by promoting sustainable business with the aim of becoming a company fully approved by various stakeholders.

Home & Personal Care Unit

Overseas Business Group

● Message from the General Manager of the Business Group

We will strive to build a foundation for the Overseas Business Group to serve as a growth driver, with the aim of achieving our financial targets through system reconstruction and an intense focus on the ASEAN region.



Makoto Saito

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

Future vision of this business group

As Daio Paper is devoting further efforts to implementing its general policy of shifting weight from paper and paperboard products to home and personal care (H&PC) products, the presence of the Overseas Business Group has grown even more prominent than in FY2022. In FY2022, we failed to completely execute our plan despite striving to achieve the goal of becoming a driving force for the entire Daio Group. Based on the results of our review of our own FY2022 operations, we will go back to the starting point and revise our financial targets to more reliably achievable ones, while maintaining the lofty goal. By doing so, we hope to make FY2023 a new starting point for the Overseas Business Group's giant leap. In FY2022, we faced even more drastic environmental changes than expected, particularly in China, Brazil, and Turkey. Taking into account the challenges we faced last year, we have devised new countermeasures. We are currently implementing them to improve our strategies and operations. Currently, we have overseas manufacturing and sales bases in five countries, and bases dedicated to sales in two countries, including Vietnam, where we established a new base in July 2023. Around these countries are many markets with untapped growth potential. From now on, we will focus on the ASEAN region, where we will be able to explore markets at an increased speed and obtain more reliable opportunities than elsewhere. We will concentrate various resources in this region while capturing ever-expanding demand. Specifically, we will strengthen local marketing functions and at the same time, explore the possibilities for reorganization and the establishment of new sales subsidiaries.

Business results for FY2022

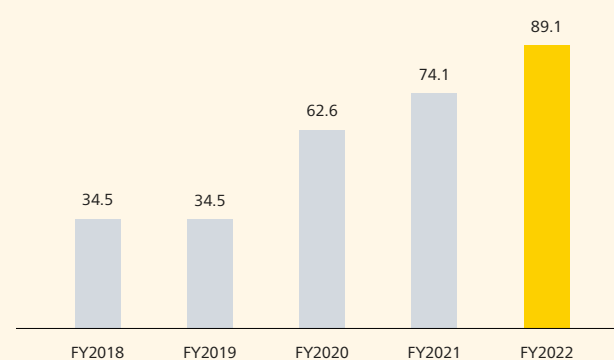
In FY2022, the business results in China, Brazil, and Turkey fell short of the initial targets. In China, immediately after the local in-house production of sanitary napkins started, a shortage of retailer staff occurred due to strict activity control under the zero-COVID policy. Many retailers long postponed starting to sell our new products,

despite agreements to include them as regular offerings in their stores. Our failure to achieve the targets in Brazil and Turkey was caused by the faster progress of cost-increasing changes there—the drastic increase in pulp prices in Brazil, and the massive depreciation of the local currency, hyperinflation, and the sharp rise in raw material prices in Turkey—than of our pass-through efforts. In China, our sanitary napkins have been on full-scale sale since this fiscal year. In Brazil, now that raw material and fuel prices have stabilized, the step-by-step pass-throughs we made last fiscal year are expected to produce positive effects throughout FY2023. Furthermore, our business in Thailand achieved profitability last year. Our strategy for the ASEAN region, including the establishment of a new sales subsidiary in Vietnam, is now beginning to make progress. The Turkish economy has long remained unstable, but we will continue our pass-through efforts, focusing on expanding sales of high-value-added products.

Daio Paper's strengths and challenges

Daio Paper's strengths lie in its abilities to develop products and to conduct marketing activities that match local needs. As part of the Daio Group's shift of weight to the H&PC Business, our marketing divisions have recently been reorganized so as to sharply accelerate the shift from the domestic business to the overseas business. One

■ Net sales of the Overseas Business Group, H&PC Unit (Billion yen)



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[China] elis-series sanitary napkins
elis Super Premium Napkin series (front); elis Premium Napkin series (back left); elis Fantasy Funie Napkin series (back right)

[Turkey] Premium liquid products
Komili Tea Tree Oil Hand Soap series (left)
Komili Premium Liquid Soap (center)
Komili Ecologic Soap (right)

[Brazil] Disposable baby diaper pants
Premium variety (left)
Standard variety (right)

● Development for the product lineup for each country

Disposable baby diaper pants in Brazil and liquid-category products in Turkey have sold even better than expected. In particular, in Brazil, which is not yet a large market for diaper pants, our premium-variety disposable baby diaper pants were launched onto the market in September last year and have since proved very popular. Following that, we launched new standard-variety disposable baby diaper pants in February 2023. We are therefore marketing a two-tier lineup of products in FY2023. Diaper pants account for about 15% of the entire Brazilian disposable baby diaper market. However, during the six months since their launch, sales of our diaper pants have grown so significantly that they currently account for about 20% of the total sales of our disposable baby diapers in Brazil. Meanwhile, in Turkey, we focused on increasing the added value of disposable baby diapers in the initial period of our local operations after business acquisition. Since the fall of 2022, we have also enhanced and broadened our lineup of premium liquid-category products, which are our main products in Turkey. As a result, for the first quarter of FY2023, sales of liquid-category products grew 2.6-fold year-on-year. It was our first experience dealing with liquid-category products, but I am pleased to report that our efforts are yielding positive results and this category is finally gaining momentum. I envision that, if these products are successful in Turkey, we will be able to scale out the know-how we have acquired there to other countries, such as China and Thailand.

of the challenges that Daio Paper has long faced is its lack of globally effective human resources who can play a central role in overseas businesses. To address this challenge, the Company is currently making a significant investment in increasing the number and capabilities of globally effective human resources. The Company is almost completely ready to send about a quarter of its domestic marketing staff to work abroad. I hope this move will bring us major new strengths, providing great support for our efforts in overseas business expansion. Daio Paper entered overseas markets later than other Japanese manufacturers, so it may be undeniable that we are still following in their wake in some ways. However, the COVID-19 pandemic has triggered radical changes in consumer needs and buying patterns. Since we are still in a transition period in terms of overseas expansion and capital investment, we can introduce the latest equipment, whose high performance will arm us with great agility in responding to new market needs. Therefore, I believe that our current position as a latecomer will rather provide us with significant business opportunities. We hope to leverage this as a strength of Daio Paper to accelerate our efforts to increase the profitability of our business.

Views on the current market environment (opportunities and risks)

Daio Paper has so far positioned increasing the added value of its products as the core of its overseas business strategy. However, the pandemic has changed consumer attitudes. For example, among consumers in China, there had been a trend of buying for themselves and their children without caring about costs. However, I recognize that they are inclining toward cost-performance-focused attitudes, considering the balance between quality and price. Nevertheless, they are still as uncompromising about product quality as before, so it is expected that price competition will become fiercer in the future. On the other hand, an increasing number of consumers are beginning to place high importance on quality while being not very particular about price. Polarization in terms of consumer attitudes is occurring between customers who focus on cost performance and those who place

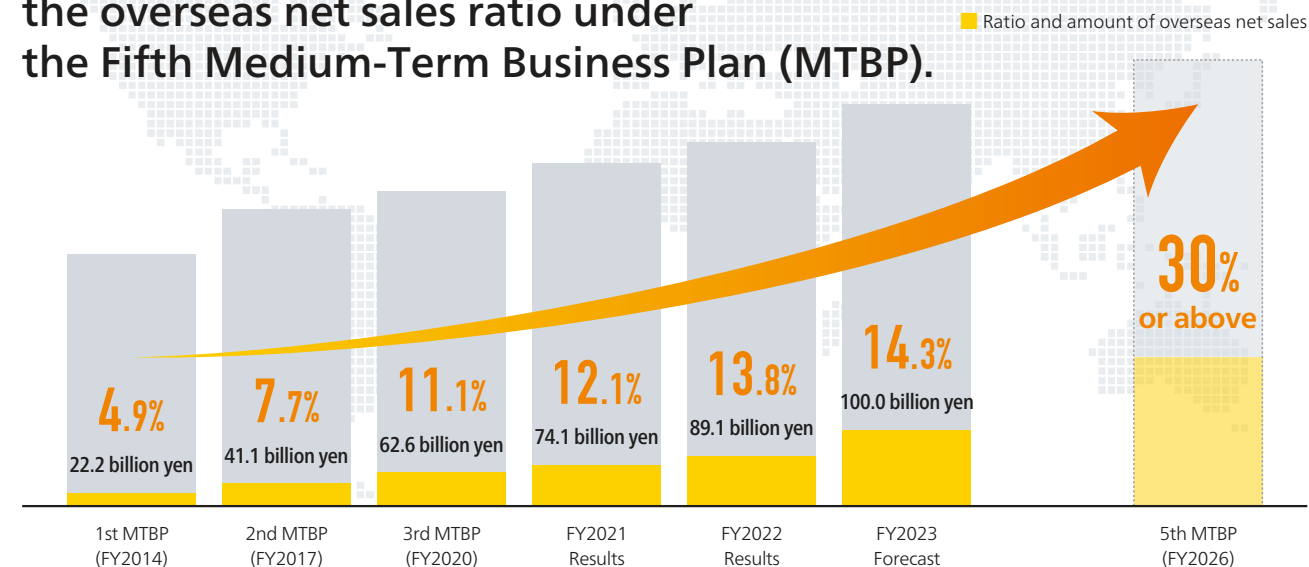
higher priority on quality than price. Keeping an eye on such changes in customer segmentation, we will enhance product lineups that appeal to respective types of consumers. Now that the sharp rises in raw material and fuel prices are passing their peaks, we will speed up our efforts to improve our profitability. In addition, our main strategy of local production of products for local consumption helps to reduce foreign exchange risks. In Brazil, the prices of raw materials and fuels passed their peaks and have been falling since the start of this year. We also hope that the selling price revisions that we have made four times since March 2022 will produce major obvious effects this fiscal year. In Turkey, the depreciation of the local currency and the soaring prices of raw materials and fuels have severely affected our profitability. However, we expect that the effects of our pass-through efforts will appear in FY2023.

Resolving social issues through our business

I believe that the mission of the Overseas Business Group is to maintain the Daio Group's business growth in the countries of its operation, thereby creating local employment and providing stable returns to the local communities. Therefore, I believe that our current top priority is to make a solid contribution to the local economies. Meanwhile, we will continue our current activities, including period education for students in Thailand and diaper education for expectant mothers in Indonesia, so as to deliver benefits to the local communities. In product terms, we have developed a new technology for bonding elastic thread to disposable baby diapers using ultrasonic waves in place of hot-melt adhesive. This technology has prepared us for the launch of low-plastic disposable baby diapers in each country in FY2023. Moreover, as part of our product and material recycling activities, in Brazil, we reuse pulp and polymers recovered from rejects from the disposable baby diaper production process. In Thailand, Indonesia, and China, we have launched an initiative to recycle production rejects of disposable baby diapers, whereby Daiki Co., Ltd., an affiliated subsidiary of Daio Paper, collects such diapers to recycle them as a raw material for a pet care product: cat litter.

Feature 1 Overseas Business Initiatives in Preparation for the Fifth Medium-Term Business Plan

We will build a foundation for achieving our target for the overseas net sales ratio under the Fifth Medium-Term Business Plan (MTBP).



Basic Policies

Enhance operations in the ASEAN region

Promote multi-category business expansion and increase added value of products

Increase the capabilities of human resources

Enhancing operations in the ASEAN region

Recognizing that the demand for disposable baby diapers in the ASEAN region is 2.6 times that of Japan on a volume basis, we position the region as the largest growth market for us. This is underscored by the anticipated population growth in the future. We will speed up our expansion into each of the markets in the region by reinforcing the marketing and sales staff and reviewing our product supply system.

We have so far provided consumers in ASEAN countries, excluding Indonesia, with the same products as we offer in Thailand. However, those countries differ in terms of market and consumer needs. While many of them are promising markets for standard and economy products, few are likely to match Thailand's strong demand for premium products. Therefore, we will implement the following measures to speed up our expansion into those markets:

Reinforcing sales and marketing staff in both number and capability

Manufacturing and providing products that meet the market and consumer needs of each country

National markets for disposable baby diapers in the ASEAN region

Research by Daio Paper

Rank	Country	Demand volume (million diapers)	Daio Group bases	
			Manufacture	Sales
1	Indonesia	624	●	●
2	Philippines	190		
3	Vietnam	176		●
4	Thailand	142	●	●
5	Malaysia	72		
6	Myanmar	39		
...		
10	Laos	6		

Vietnam: Establishment of a sales subsidiary

In July 2023, we established a new sales subsidiary in Vietnam, a promising market with high demand and great potential for further growth. We will reinforce our sales and marketing staff working in the country to speed up our expansion into the Vietnamese market.

Philippines and Malaysia

Sales in the Philippines or Malaysia were managed by our base in Thailand as we lack a sales base in either country, despite the two being among the top five that account for 90% of demand in the ASEAN region. In a move to provide products better suited to local needs and advance our expansion in the two markets by enhancing logistical efficiency, we recently shifted this responsibility to our base in Indonesia. To support this move, we will reinforce our Indonesian sales and marketing team in Indonesia in both capacity and capability.

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

~Financial and Corporate Data~

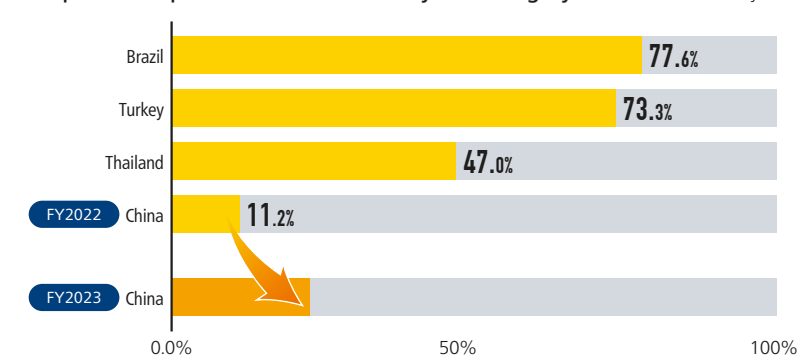
Promoting multi-category business expansion* and increasing added product value

* Multi-category business expansion: Business expansion through the provision of products in multiple categories

In our overseas business, we aim to strengthen our business foundation and improve our profitability by promoting multi-category business expansion and increasing added value of products according to the circumstances of each local subsidiary. Specifically, in China, Elleair International China (Nantong) Co., Ltd. (EICN) will leverage the firmly established brand image of DaWang as a brand of high-quality disposable baby diapers to expand sales of feminine care and household paper products, thereby promoting multi-category business expansion. In Brazil and Turkey, where we conduct business through the two subsidiaries we acquired in 2020, Santher-Fábrica de Papel Santa Therezinha S.A. (Santher) in Brazil and Elleair International Turkey Kişisel Bakım Ürünleri Üretim A.Ş. (EITR) in Turkey, products outside the baby care product category already constitute the majority of our product portfolio. However, a significant percentage of these are standard products. Therefore, they are working to market high-value-added products and expand their sales by introducing Daio Paper's proprietary technologies.

Multi-category business expansion: EICN (China)

Proportion of products outside the baby care category



In contrast to our progress in multi-category business expansion in other countries, COVID lockdowns in China prevented us from achieving our desired progress last fiscal year as we were made to defer the launch of sanitary napkins as a new category in the Chinese market. This fiscal year, we will leverage the sales capabilities we have developed through our sales activities for disposable baby diapers to facilitate our sales expansion and upgrade product displays at stores, while enhancing our production facilities. By doing so, we aim to broaden our product lineup, which is presently limited, and launch our sanitary napkins on a full scale in China as soon as possible.



Efforts to increase the added value of products: Santher (Brazil)

Business foundation of Santher

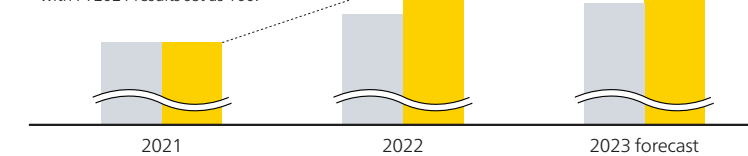
Technological prowess of the Daio Group

Efforts to increase the added value of main products, resulting in a net increase in sales of premium products

Sales growth in toilet tissue, sanitary napkins, and disposable baby diapers

Volume Amount

* This graph shows the total rate of increase in sales volume and amount of products in these categories with FY2021 results set as 100.



Three-ply toilet rolls



Premium sanitary napkins

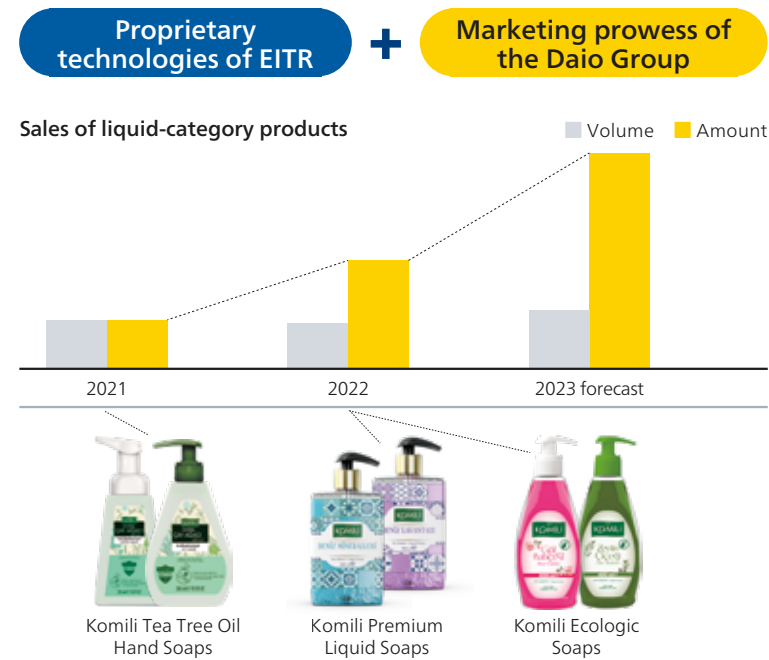


Premium diaper pants



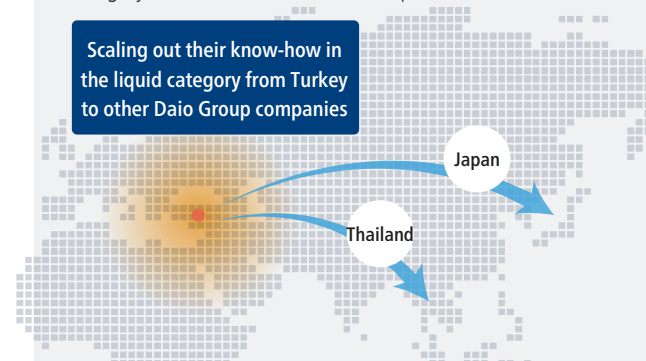
Standard diaper pants

Efforts to increase the added value of products: EITR (Turkey)



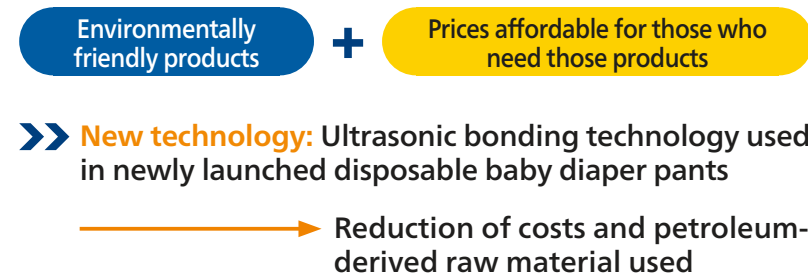
Before our acquisition of the predecessor of EITR, the company mainly dealt with standard products. However, since it joined the Daio Group, it has devoted enhanced efforts to developing new value-added disposable baby diapers and liquid products, and expanding their sales. The company's endeavor to pass on the increase in raw material and fuel prices to selling prices and expand sales of value-added products helped improve the unit prices of its products, resulting in remarkable growth in the sales amount when compared with the sales volume. This acquisition also introduced expertise in the liquid category to our Group. Moving forward, we will gradually scale out their know-how in the liquid category to other countries where we operate.

Scaling out their know-how in the liquid category from Turkey to other Daio Group companies



Creation of new kinds of added value in addition to luxury and high quality

We are devoting increased efforts to developing environmentally friendly products that do not require additional costs.



We used a new technology for bonding elastic thread to disposable baby diaper pants using ultrasonic waves. Together with other efforts, we reduced plastic in a pair of diaper pants by 25%. Disposable baby diaper pants using this technology were launched in Turkey in December 2022, and in Brazil in February 2023. We will also launch products with the same specifications in other countries.

Reducing the use of plastic by **25%**

* Compared with other Daio Group baby diaper pants of the same size



Reinforcing human resources

To expand our overseas business, we will shift our human resources to the Home & Personal Care (H&PC) Overseas Business and enhance the capabilities of our overseas organizations and human resources. We will train our staff to be able to take the initiative in taking on new challenges even among people with different cultural backgrounds from their own, by such measures as providing young managerial-track staff with career paths that involve overseas assignment. We will also recruit human resources with great expertise in marketing and other fields from outside. By doing so, we aim to establish a system for ensuring speedy implementation of our overseas strategy.

Training and staffing

1. Enriching the staff training system ➤ Developing globally effective human resources
2. Reinforcing personnel in overseas business, which will continue to grow in the future
3. Increasing the staff of subsidiaries in ASEAN countries ➤ Boosting our marketing and development prowess in the ASEAN region

System improvement



Environmental conservation activities, team bonding with locally employed staff, and social contribution activities



Intellectual Capital

—Intellectual Property Strategies to Enhance Corporate Value—

The Daio Group's basic principle for intellectual property is to "Maximize the value of seeds that will shape an abundant and affable future for the world."

The Intellectual Property (IP) Department is involved actively in all steps in the innovation process in order to increase the value of "seeds" that could serve as our future revenue streams. The IP Department staff listen sincerely to the management team and related departments, such as development and marketing departments, as well as overseas bases, to ensure that no "seed" goes unnoticed, no matter how small it might be. In our IP activities, we will adopt a proactive stance toward co-creation and co-cultivation with related departments.

Takashi Imaizumi

Executive Officer
General Manager of
Intellectual Property
Department, Corporate
Planning Division
Corporate Unit



Raising seeds into ideas

Good listeners and advisors

The IP Department staff listen sincerely to the staff of related departments, such as development and marketing departments, as well as the staff of overseas bases, to identify promising "seeds." They also keep an eye out for information about the external environment, and propose new perspectives and directions to relevant departments while utilizing such analysis methods as IP landscaping. By doing so, they raise the identified seeds to be "buds" of ideas for specific products and services that can offer high value to customers.



Raising ideas into our competitive advantages

Good partners in co-creation and co-cultivation

To further develop those ideas into the Daio Group's competitive advantages, the IP Department staff collaborate with related departments and external partners with a proactive stance toward co-creation and co-cultivation. In addition, through department-wide dialogues, they secure strong strategic combinations of rights to patents, designs, and trademarks, thereby building an intellectual property portfolio that is finely tuned to the Daio Group's requirements.



Raising our competitive advantages into our profit sources

Solid offense and defense

The IP Department staff will fortify the Daio Group's offense and defense through intellectual property rights, and work together with related departments to cultivate the Daio Group's products and brands into its strengths and profit sources.
[Offense] Protecting and enforcing IP rights globally, implementing proactive countermeasures against counterfeits, etc.
[Defense] Performing thorough IP clearance searches, providing the staff of related departments with IP training, disseminating IP-related information throughout the Daio Group, etc.

Leveraging the IP Department's position that allows for a holistic view of the entire Group from a management standpoint

At Daio Paper, IP activities are regularly reported to the management team twice a year at Management Meetings. Important IP-related matters are also reported to the management team as needed to consult the team about those matters. In April 2023, the IP Department made a new start as part of the Corporate Planning Division. This strategic shift that allows for a holistic view of the Group from a management standpoint positions the department to play a pivotal role in driving innovative strategies across the entire Group. Each IP staff member will reframe their mindset as a member of the Corporate Planning Division, seek to understand the business strategy and the current IP portfolio of their areas of responsibility, and identify the factors that differentiate the Daio Group from its competitors and the ways the Group can cultivate and maximize the value of "seeds." Ultimately, we aspire to establish a framework where IP staff members can actively propose new avenues for product development to related departments and fresh business directions to the management team.

Strategic transformation of our business portfolio

The IP Department supports the creation of products and services that can provide high value to customers and the protection of the Daio Group's competitive advantages, both of which help increase the profitability of each business.

→ **Major Initiatives** 1
→ **IP Data** 3

Acceleration of global expansion

The IP Department protects important technologies by obtaining patents for them globally.

→ **IP Data** 1

The IP Department protects important brands by obtaining trademark and design rights globally.

→ **Major Initiatives** 2

Creation of new businesses

The IP Department contributes to establishing competitive advantages by applying for patents for technologies related to cellulose nanofiber (CNF) and radio frequency identifiers (RFID; also known as "IC tags"), which are integral to the Daio Group's new businesses.

→ **IP Data** 2

Realization of a recycling-oriented society

The IP Department strategically applies for patent for environmentally friendly technologies and utilizes the Daio Group's IP to aid in enhancing product recognition.

→ **Major Initiatives** 1
→ **IP Data** 2

Major Initiatives

1 Development and protection of the Elipla series of environmentally friendly products

The Daio Group views global trends toward plastic-free lifestyles as a business opportunity, and provides various paper materials and products as alternatives to plastic. To increase public recognition for those products, in February 2022, Daio Paper consolidated products that contribute to plastic-free and low-plastic lifestyles under a single brand, and launched the new Elipla series.

Among the Elipla-series products is FS Elipla Paper, high-density heavyweight paper developed by leveraging Daio Paper's proprietary technology. The Company not only provides corporate users with this product as an alternative to plastic, but is also developing highly functional and well-designed products using this paper, including paper hangers. The IP Department protects the brand name, logo, technology, and designs from various aspects, by obtaining patents and trademark and design rights in order to ensure that the Daio Group can continue to manufacture and sell environmentally friendly products while maintaining its own advantages, thereby contributing to the Company's sustainable growth and sustainable social development.



- More than 30 applications have been submitted for patents and design registration for the entire Elipla series (including already approved or undisclosed applications), eight of which are for registration of designs related to hangers and have been approved.
 - The brand name and logo have also been trademarked.
- Web page featuring the Elipla series
<https://www.daio-paper.co.jp/en/csr/dedicated/environment/>

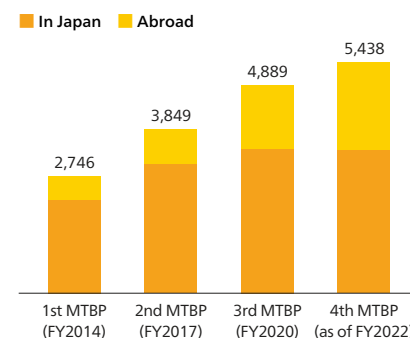
2 Offensive and defensive IP strategies linked to brand strategies

The Daio Group respects the rights of other companies, and promotes brand protection activities closely linked to its brand strategies in Japan and abroad. We promote a hybrid IP strategy that combines trademark rights, design rights, and copyrights with a view to scaling it out globally. Our main measures to achieve this include selecting likely competitive brands from the planning and development stages for new products, checking that the names and designs of our products will not infringe other companies' rights, and obtaining rights that are highly effective in holding other companies in check. Our recent progress in overseas business expansion has helped increase global public recognition of our brands, including Elleair and GOO.N, resulting in growing obstacles to our business operations due to the distribution of counterfeits and imitations. The entire Daio Group rigorously monitors trends in third-party products in the market, and is ready to make resolute responses to any infringement on our rights or unfair competitive acts committed by third parties, including even legal actions against such cases, by leveraging the IP rights that the Group has in Japan and abroad.

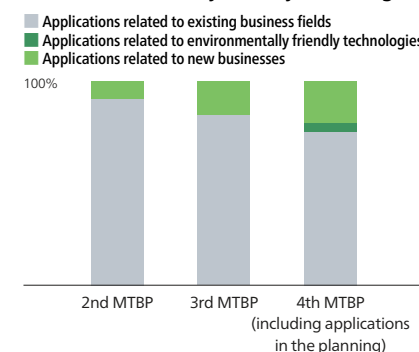


IP Data

1 Number of patents held by the Daio Group



2 Percentages of patent applications related to new businesses and environmentally friendly technologies



3 Daio Paper's rank in total YK Value^{*4} in each technological field (as of the end of March 2023)

Hygiene products **No. 1**
Medical products **No. 1**
Cleaning tools **No. 1**

Daio Paper ranks top in three fields!

[Notes] 1. The number of patents held by the Daio Group, the number of patent applications, and other figures shown here may not match previously published figures due to changes in internal tabulation standards and other factors.
2. The number of patents held by the Daio Group is as of the end of the final fiscal year of each Medium-Term Business Plan (MTBP). Only the number for the 4th MTBP is as of the end of the latest fiscal year.
3. The percentages of patent applications related to new businesses and environmentally friendly technologies are calculated based on the total number of patent applications submitted during the three-year period of each MTBP. Although this graph shows the percentage of the number of patent applications related to environmentally friendly technologies only for FY2022, the Daio Group's efforts to apply for patents for environmentally friendly technologies date back to before FY2022.
4. The YK Value is an indicator for the competitiveness of a patented technology. This indicator was developed by KUDO & Associates to measure the strength of a patent's monopoly and exclusivity.