

## Financial Results for the Six Months Ended September 2021 Q&A Summary

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**Q1)** I understand that the reason for the price hike is due to the current price of coal and other factors, but I also understand that the price of coal has started to drop a little. In such a situation, I wonder if your company is going to steadily raise prices with a sense of speed this time. Depending on the situation, there is a possibility that the quantity may be reduced. In spite of such a situation, you will secure appropriate profits while responding to the price increase with a sense of speed. Is this correct understanding as to your stance?

**A1)** We are aware that it is difficult to forecast the future due to the volatile trends in raw materials. Meanwhile, compared to the previous year, we understand that there will continue to be a strong cost push in the future in general. In addition, the factors that I have mentioned as factors for the price hike this time, such as soaring labor costs and soaring logistics costs, which have become even more severe recently, are expected to continue. For example, we have decided that, even if the price of coal has settled down to a certain level, we have no choice but to ask for understanding for the current price hike. In any case, because of the background I just mentioned, we will handle the price hike with a sense of speed.

**Q2)** Is it correct to think that, even though it is difficult to spend money on the Paper Business, you will be able to improve the efficiency of the mills by implementing BCP?

**A2)** Yes. As for the investments planned in the mid-term business plan and long-term vision, we are looking at a certain amount of investment in management strategies. This is mainly for the growing business and new business, but we are also looking at how to use funds to maintain our foundation businesses. In particular, I believe that this disaster response and BCP is a very high priority among them. In terms of stable production in our foundation business, paper production, I think we need to prioritize our efforts in this area.

**Q3)** Please tell us about the Daily-Life Products Business. The operating income plan for this fiscal year has been revised downward by JPY4.5 billion from JPY11 billion to JPY6.5 billion, so what is the breakdown between domestic and overseas? I would like to know more about the factors behind the downward revision, both domestic and overseas. Then, if pulp becomes cheaper, will domestic business improve profitability? Also, I understand that Opal's sales volume is returning, but is it a correct understanding that, if the volume returns, the profit will also return?

**A3)** In the Daily-Life Products Business, we have revised down JPY4.5 billion. The numbers are about 50/50 between domestic and overseas. For overseas, we have incorporated the downward trend in the first half of the year into the full year, especially in the first half of the year when demand fell due to the impact of COVID-19. In the second half of the fiscal year, the situation in COVID-19 is returning to normal, so we expect that things will go as planned at the beginning of the fiscal year, including synergies.

For domestic, this basically means that we are looking at the impact of soaring raw material prices. Pulp has been the biggest factor. But for example, city gas and other energy-related purchasing electricity will naturally push up costs. Logistics costs will also increase. We have factored in these areas that have increased more than expected.

We are carefully monitoring the economic situation in Australia and the return of demand. We believe that once the Opal's sales volume recovers, we will definitely be able to see recovery in profits. I believe that Opal will be able to recover if we can reduce costs, including synergies.

**Q4)** You mentioned reducing the current coal consumption of 2 million tons to 1 million tons by 2030. How much will be the cumulative amount of investment required for energy conversion? And about reduction to 1 million tons, is that something that we can expect from 2021 to 2025, or is it something that we should expect to proceed rapidly much later, from 2025 to 2030?

**A4)** In terms of GHG reduction, we believe that the most important thing is to reduce the amount of GHG generated and emitted through energy conservation. We have an annual target for this, and so far we are making good progress. As for fuel conversion, we are actually doing a lot of work on that right now. What we can do now, for example, is to replace recycled fuels and waste fuels with coal. Until 2030, I think these efforts will probably be the first priority. In addition, I believe we need to incorporate biomass fuels, perhaps spending some money as cost.

As for the breakdown, I would like to ask for your understanding that we cannot disclose for now, but we are looking at a certain amount of capital investment in cash flow in this mid-term business plan. We need to mobilize various measures, so we believe that progress will be made gradually.

**Q5)** I would like to know how you are thinking about raising prices for those other than printing, business communication, and industrial papers.

**A5)** As for the price increases announced this time for products other than printing, business communication, and industrial papers, nothing has been decided at this time. But I think we need to take a close look at the overall situation.

**Q6)** I think you are assuming that demand will continue to shrink, so is it correct to assume that you are considering further capacity reduction?

**A6)** Yes. I think we have to carefully assess how the current price hike will affect demand. In any case, digitalization will continue to progress, so we must keep in mind the future decline in demand for printing and business communication paper. However, since we have made this level of reduction, we believe that we can achieve a balance between supply and demand for the time being. I believe that we must always be ready to consider the situation while carefully monitoring the world.

**Q7)** I would like to ask President Nozawa one question. I think the energy cost situation has shifted quite a bit from the original mid-term business plan. In looking back over the past 6 months, some aspects have been working as expected, and others have been a little different. Also, from this point on, what do you need to do from here? Can you tell me about it, including how to modify the course?

**A7)** Throughout the first half of the year, we honestly did not expect the price of raw materials and fuel to rise to this level. Also, it seems that the dynamics of supply and demand for coal and crude oil, for example, have collapsed a bit. The GCI, which has risen to USD250, may

not fall to USD60 or USD70 as it did before. The price is currently around USD150, and I think it is unlikely to go down quickly.

It is said that the disruption in logistics costs and containers will continue until 2023 or so. I think that the cost increase in logistics will continue for a while. Therefore, looking ahead to the next fiscal year and beyond, I think it is more important to keep a reasonable profit by offering reasonable prices and gaining the understanding of our customers.

Unfortunately, a number of negative factors overlapped in the Daily-Life Products Business, such as the high pulp prices that hit Nippon Paper Creca, and the sluggish sales of Opal in the first half due to the impact of COVID-19. In that sense, I believe that the current situation is starting to improve, and we are taking appropriate measures in terms of capital investment. From next year onwards, we would like to lift up profit from Daily-Life Products Business by all means.

I believe that we have to accomplish the Medium-Term Business Plan 2025 by any means necessary, so we have to respond to each situation with a sense of speed. We need to do something about the Paper Business for the time being, and Opal. We need to earn profits properly. This is what occupies the most of my mind right now.

**Q8)** I think you have raised the amount of annual capital investment from the beginning of the fiscal year. What factors led you to raise your forecast for capital investment, and can you give us some hints about the outlook for capital investment in the next fiscal year and beyond?

**A8)** We continue to update our capital investment, and JPY62 billion has been the amount for the current fiscal year. For the next fiscal year and beyond, we have an investment plan based on the cash flow that we originally looked at in the mid-term business plan, and we are not planning to change this plan in the big picture. We have no plans to stop or make any major investments at this time.

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