



NIPPON PAPER GROUP

Q2 Financial Results and Management Briefing for the Fiscal Year Ending March 2022

November 5, 2021

Event Summary

[Company Name]	Nippon Paper Industries Co., Ltd.	
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[Event Language]	JPN	
[Event Type]	Earnings Announcement	
[Event Name]	Q2 Financial Results and Management Briefing for the Fiscal Year Ending March 2022	
[Fiscal Period]	FY2022/3 Q2	
[Date]	November 5, 2021	
[Time]	17:00 – 18:12 (Total: 72 minutes, Presentation: 39 minutes, Q&A: 33 minutes)	
[Venue]	Webcast	
[Number of Speakers]	Toru Nozawa Tomoyasu Itakura Akira Sebe Takashi Ueno	President and Representative Director Director, Executive Officer, General Manager, Financial Division Executive Officer, General Manager, Corporate Planning Division General Manager, Corporate Planning Department

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1st Half FY2022/3 Financial Results



Consolidated Statement

(¥billion)

	1st Half FY2021/3 Results	1st Half FY2022/3 Results	Variance	
			Amount	%
Net sales	467.4	508.4	41.0	8.8%
Operating income	4.0	8.1	4.1	104.3%
Ordinary income	-2.1	9.7	11.8	—
Net income *	-8.0	2.2	10.2	—

* Profit attributable to owners of parent

- Net Sales increased against last year. Though the application of accounting standard for revenue recognition from the current fiscal year provided the negative impact, that was outweighed by the impact of two positive contributors, the demand recovery from Covid-19 and acquisition of Orora Limited's paperboard and fiber-based packaging business in Australia and New Zealand at the end of April 2020.
- Higher raw material and fuel prices results in challenging business environment. Nevertheless, operating income increased compared to the last 1H because it recorded the acquisition-related expenses of Orora Limited's paperboard and fiber-based packaging business in Australia and New Zealand in the previous year.

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Itakura: I will now present an overview of the financial results for the second quarter of FY2022/3.

Net sales increased by 8.8% to JPY508.4 billion from the previous year and operating income increased by 104.3% or doubled to JPY 8.1 billion from the previous year. Net sales increased by JPY41.0 billion, mainly due to the reaction to the large drop in demand in the previous year caused by COVID-19 and the acquisition of the paperboard and fiber based packaging business in Australia and New Zealand at the end of April 2020. Meanwhile, effective from this fiscal year, we have adopted the accounting standard for revenue recognition, and that has had a negative impact of JPY30.8 billion on net sales.

From the second quarter, the business environment became more difficult due to soaring raw material and fuel prices. Operating income increased by JPY4.1 billion from the previous year, mainly due to the JPY5.8 billion recorded in the previous year as expenses related to the acquisition of the paperboard and fiber based packaging business in Australia and New Zealand.

In terms of non-operating income and expenses, the foreign exchange valuation loss due to dollar-denominated borrowings at our Brazilian subsidiary in the same period of the previous fiscal year was eliminated in the current fiscal year, resulting in a positive ordinary income. In addition, we recorded a gain on sales of investment securities as extraordinary income and also recorded extraordinary losses, including loss on disaster due to earthquake off the coast of Fukushima Prefecture, impairment loss due to the stoppage of the N6 paper machine at Ishinomaki Mill, and loss on withdrawal from the Kushiro Mill business.

As a result of the above, ordinary income was JPY9.7 billion and net income was JPY2.2 billion, bringing us back into the black compared to last year's deficit.

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Results by Segment

(¥billion)

	Net sales			Operating income		
	1 st Half FY2021/3 Results	1 st Half FY2022/3 Results	Variance	1 st Half FY2021/3 Results	1 st Half FY2022/3 Results	Variance
Paper and paperboard	272.5	261.4	-11.1	-2.0	-0.2	1.8
Daily-life products	140.5	189.7	49.2	6.0	1.8	-4.2
Energy	16.4	14.8	-1.6	3.4	1.1	-2.3
Wood products and construction related	25.5	28.5	3.0	2.4	3.5	1.1
Others	12.5	14.0	1.5	0.0	1.9	1.9
Acquisition-related expenses	-	-	-	-5.8	-	5.8
Total	467.4	508.4	41.0	4.0	8.1	4.1

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Net sales and operating income by segment were as shown here.

Net sales increased JPY41.0 billion year on year to JPY508.4 billion. In the Paper and Paperboard Business, net sales decreased due to the impact of the accounting standard for revenue recognition, but net sales increased in real terms. In the Daily-Life Products Business, net sales increased as a result of the acquisition of the paperboard and fiber based packaging business in Australia and New Zealand at the end of April 2020.

Operating income increased JPY4.1 billion from the previous year to JPY8.1 billion. The details will be explained later in the segment results section.

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1st Half FY2022/3 vs. 1st Half FY2021/3 Variance Analysis

(¥billion)

Volume, Sales Price	3.2	—
Raw material and fuel prices	-4.0	Woodchip 0.2, Wastepaper -0.1, Pulp -0.8, Oil -1.1, Coal -1.2, Others -1.0 (Price -3.4, FOREX -0.6)
Cost reductions, etc.	1.1	Cost reductions 1.7, Repair costs -0.9, Permanent machine shutdown at Kushiro Mill 1.1, Labor costs 0.0, Logistics cost -0.8
Others	1.5	Overseas business -0.4, Depreciation 0.7, Retirement benefit expenses -0.7, Inventory value adjustment, etc. 1.9
Paper and paperboard business	1.8	
Daily-life products business	-4.2	Domestic -2.1: Household paper and Healthcare -2.1, Overseas -2.1: Opal -2.2, NDP 0.3, Others -0.2
Other businesses	6.5	Energy -2.3, Wood products and construction related 1.1, Others 1.9, Acquisition-related expenses 5.8
Operating income	4.1	
Non-operating income	7.7	Net financial cost -0.6, Equity in earnings of affiliates 2.3, FOREX 4.9, Others 1.1
Ordinary income	11.8	

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This is a breakdown of the factors for the variances.

First, the factors for the Paper and Paperboard Business. We will refrain from disclosing the breakdown, but the volume and sales price were a positive factor of JPY3.2 billion. Domestic sales volumes of paper and paperboard increased by 2.9% and 4.6%, respectively, compared with the same period of the previous year.

Although raw material and fuel prices have been negative since the second quarter, in total, it has been a negative factor of JPY4 billion. The main influences are coal, crude oil, and chemicals.

Cost reduction and others were a positive factor of JPY1.1 billion. This includes the effects of Cost reductions and the reduction of fixed costs due to the machine shutdown at Kushiro Mill.

Other businesses, such as Daily-Life Products Business, will be explained later.

As a result of the above, operating income increased by JPY4.1 billion from the same period last year. Non-operating income increased by JPY7.7 billion compared to the same period of the previous year due to the effect of exchange rate differences and the contribution of equity in earnings of affiliates, and ordinary income increased by JPY11.8 billion compared to the same period of the previous year.

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Paper and paperboard business

(¥billion)

Net sales		Variance	Operating income		Variance
1 st Half FY2021/3 Results	1 st Half FY2022/3 Results		1 st Half FY2021/3 Results	1 st Half FY2022/3 Results	
272.5	261.4	-11.1	-2.0	-0.2	1.8

● Paper(Domestic)

- Sales volume of newsprint decreased by 7.9% due to a partial halt of operations at Iwanuma Mill following the earthquake off the coast of Fukushima Prefecture.
- Sales volume of domestic printing paper increased by 8.6% due to a reactionary decline in demand in the previous 1H.

● Paperboard(Domestic)

- Domestic sales volume increased by 3.4% due to a recovery in demand for industrial products and steady demand for processed foods and mail-order products.

● Oversea business

- Sales volume of Jujo Thermal and SNP increased due to a rebound to the decline in demand in the previous 1H, but operating income decreased due to the rise in raw material and fuel prices.

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I will now explain the results by segment.

First, the Paper and Paperboard Business.

Sales volume of newsprint decreased significantly compared to the previous year due to the partial halt of operations at Iwanuma Mill as a result of the earthquake off the coast of Fukushima Prefecture that occurred in February this year. Domestic sales volume of printing paper increased significantly from the same period last year due to the reaction to the large drop in demand in the same period last year.

In the Domestic Paperboard Business, domestic sales volume exceeded that of the same period of the previous year, mainly due to the recovery of demand for industrial products and steady demand for processed foods and mail-order products.

In the Overseas Business, sales volume of both Jujo Thermal and SNP increased significantly compared to the same period of the previous year, but operating income decreased due to higher raw material and fuel prices.

As a result of the above, the Paper and Paperboard Business saw a decrease in sales and an increase in operating income compared to the previous year.

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1st Half FY2022/3 Financial Results



Daily-life products business

(¥billion)

	Net sales			Operating income		
	1 st Half FY2021/3 Results	1 st Half FY2022/3 Results	Variance	1 st Half FY2021/3 Results	1 st Half FY2022/3 Results	Variance
Domestic	83.8	90.5	6.7	6.2	4.1	-2.1
Overseas*	56.7	99.2	42.5	-0.2	-2.3	-2.1
Daily-life products business total	140.5	189.7	49.2	6.0	1.8	-4.2

● Domestic

- In domestic Paper-pak business, sales volume slightly decreased compared to the previous 1H. Demand for milk cartons for school meal recovered, but demand for milk cartons for home-use and juice cartons declined.
- In Household paper and Healthcare business, net sales increased compared to the previous 1H due to a rebound to the decline in demand, and integration of sales functions of hand towels with Try-Fu Co., Ltd. However, operating income declined due to higher raw material and fuel prices.

● Overseas

- Opal's sales volume of corrugated boxes decreased due to Covid-19.
- Both net sales and operating income of Nippon Dynawave Packaging (NDP) increased due to higher pulp sales volume because dry pulp machine is well running.

*Including goodwill amortization costs related to acquisition of Orora Limited's paperboard and fiber-based packaging business in Australia and New Zealand.

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Next, I will explain the performance of the Daily-Life Products Business.

As for Domestic Paper-pak Business, despite a recovery in demand for milk cartons for school meal, overall sales volume slightly decreased and fell below that of the same period of the previous year due to a decline in demand for containers for milk cartons for home-use and juice cartons.

In Household papers and Healthcare Business, sales increased due to a rebound from the decline in demand in the same period of the previous fiscal year, as well as the integration of sales functions of hand towels with of Try-Fu Co., Ltd. However, due in part to the rise in raw material and fuel prices, such as pulp prices, sales increased but operating income decreased.

Among Overseas Business, Opal reported a decrease in profit compared to the same period of the previous fiscal year, mainly due to the impact of the trouble with the chip conveyor trouble at a mill in the former Australian Paper business. In addition, demand for corrugated boxes decreased due to the impact of COVID-19, including intermittent curfews in major cities. Since it is overseas, the 1H is from January to June. As a result, Opal saw an increase in sales and a decrease in profit.

NDP in North America achieved higher sales and profit mainly due to steady operation of dry pulp machines, higher sales volume of pulp, and recovery in sales volume of base paper for paper cups, which saw a decline in demand in the same period of the previous year.

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Energy business

(¥billion)

1 st Half FY2021/3 Results	Net sales		1 st Half FY2021/3 Results	Operating income	
	1 st Half FY2022/3 Results	Variance		1 st Half FY2022/3 Results	Variance
16.4	14.8	-1.6	3.4	1.1	-2.3

- Both net sales and operating income declined due to the completion of rapidly changing mitigation measures in the Feed-in tariff (FIT) fixed-price system to promote renewable energy.

Wood products and construction related business

(¥billion)

1 st Half FY2021/3 Results	Net sales		1 st Half FY2021/3 Results	Operating income	
	1 st Half FY2022/3 Results	Variance		1 st Half FY2022/3 Results	Variance
25.5	28.5	3.0	2.4	3.5	1.1

- Both net sales and operating income increased due to soaring prices because of shortage of timber on a global scale, as well as an increase in the number of new housing starts.

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In the Energy Business, both net sales and operating income decreased due to the completion of the drastic-change mitigation measures for the Feed-in Tariff (FIT) system for renewable energy, as well as the sharp rise in raw material and fuel prices.

In the Wood Products and Construction-Related Business, both sales and profits increased compared to the previous year due to factors such as an increase in the number of new housing starts, in addition to price hikes for timber and building materials due to a shortage of timber supplies on a global scale.

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Consolidated Balance Sheets

	Mar.31, 2021	Sep.30, 2021	Variance
(¥billion)			
Total assets	1,547.3	1,552.7	5.4
Cash and time deposit	69.7	56.8	-12.9
Inventories	173.7	188.7	15.0
Other current assets	290.4	280.5	-9.9
Property, equipment, and intangible fixed asset	806.7	800.8	-5.9
Investment and other assets	206.8	225.9	19.1
Total liabilities	1,122.6	1,115.0	-7.6
Interests bearing liabilities	828.9	817.9	-11.0
Other liabilities	293.7	297.1	3.4
Total net assets	424.7	437.7	13.0
Shareholder's equity	362.1	359.2	-2.9
Total liabilities and net assets	1,547.3	1,552.7	5.4
	Mar.31, 2021	Sep.30, 2021	Variance
Net interest-bearing debt	759.1	761.1	2.0
Adjusted Net D/E ratio * (times)	1.86	1.88	0.02

* Adjusted Net D/E ratio = (Net interest-bearing debt - Equity-type debt) / (Shareholders' Equity + Equity-type debt)

Equity-type debt : The amount of debt procured by Hybrid loans that has been recognized as equity credit by rating agencies (50% of the procured amount raised)

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The balance sheet is as shown.

Total assets as of September 30, 2021, were JPY1,552.7 billion, almost unchanged from the end of the previous period. The increase in inventories was mainly due to a recovery in the inventory volume of newsprint and other products. Here, due to the impact of the earthquake in Iwanuma Mill, newsprint were paid out of the inventory, and this inventory level has been increasing.

Net interest bearing liabilities as of September 30, 2021, increased slightly from the end of the previous period to JPY761.1 billion. The net debt-to-equity ratio is 1.88 times as of the end of September 2021, which is the figure that takes into account the amount of debt procured through hybrid loans that has been certified as equity capital by the rating agencies.

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Consolidated Statement

(¥billion)

	FY2021/3 Results	FY2022/3 Revised Forecast	FY2022/3 Previous Forecast	Variance
Net sales	1,007.3	1,030.0	1,030.0	0.0
Operating income	19.2	14.0	25.0	-11.0
Ordinary income	12.3	14.0	19.0	-5.0
Net income *	3.2	1.0	1.0	0.0

* Profit attributable to owners of parent

- Prices of raw materials and fuels such as coal, oil, and chemicals have soared globally. Current prices are much higher than our initial forecast. We will make efforts to revise sales prices of printing paper, business communication paper and industrial paper, but operating income and ordinary income are expected to fall below the previous forecast.

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This is about the earnings forecast and outlook.

As you can see, we have revised our full-year earnings forecast for FY2022/3 from the previous forecast announced in May.

Prices of raw materials and fuels such as coal, crude oil, and chemicals, as well as logistics costs, have risen more than initially expected. Yesterday, we announced price revisions for printing paper, business communication paper, and industrial paper, and we will continue to work on price revisions. However, operating income and ordinary income are expected to be lower than the initial forecast.

In the second half of the fiscal year, we also plan to post a extraordinary loss as a loss related to the business structure transformation.

As a result of the above, as for net income, we have not changed our initial forecast of JPY1 billion.

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Results by Segment

(¥billion)

	Net sales			Operating income		
	FY2021/3 Results	FY2022/3 Revised Forecast	Variance	FY2021/3 Results	FY2022/3 Revised Forecast	Variance
Paper and paperboard	568.3	535.0	-33.3	2.5	-4.5	-7.0
Daily-life products	317.9	380.0	62.1	7.9	6.5	-1.4
Energy	33.4	30.0	-3.4	6.9	2.5	-4.4
Wood products and construction related	59.9	55.0	-4.9	6.5	6.5	0.0
Others	27.8	30.0	2.2	1.4	3.0	1.6
Acquisition-related expenses	—	—	—	-6.0	—	6.0
Total	1,007.3	1,030.0	22.7	19.2	14.0	-5.2

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Net sales and operating income forecasts by segment are as shown.

There are no changes to the initial forecast for net sales by segment.

As for operating income, we have revised downward our initial forecasts for the Paper and Paperboard Business, Daily-Life Products Business, and Energy Businesses.

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Major assumptions

■ Annual decline in domestic sales volume (YoY)

	Revised Forecast		Previous Forecast	
	2nd Half	Full year	2nd Half	Full year
Newsprint	-4%	-6%	-6%	-8%
Printing	-7%	0%	-5%	1%
Business communication	-1%	1%	-2%	1%
Containerboard	-2%	-1%	-2%	-1%

■ Major raw material prices and FOREX

	Revised Forecast (2nd Half)	Previous Forecast (Full year)
FOREX(USD)	JPY 115/USD	JPY 108/USD
FOREX sensitivity(USD)	+600 million yen/year due to 1 yen appreciation	+500 million yen/year due to 1 yen appreciation
Coal (Australian coal benchmark price)	Taking into account the most recent market conditions	USD 85/t
Crude oil (Dubai)	USD 85/BL	USD 60/BL
Wastepaper	Current level continues	Current level continues

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The main assumptions for the forecast of financial results are as shown in the table below.

Our view of domestic sales volume has been slightly changed in light of the current situation, but we believe that it will basically be in line with the plan at the beginning of the fiscal year.

With regard to the prices of major raw materials and exchange rates, we have changed our assumptions for coal, crude oil, exchange rates, etcetera, from the initial forecast in consideration of the current situation.

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FY2022/3 Forecast vs. FY2021/3 Variance Analysis

(¥billion)

Volume, Sales Price	5.7	—
Raw material and fuel prices	-22.7	Woodchip -2.9, Wastepaper -1.0, Pulp -1.6, Oil -2.7, Coal -9.0, Others -5.5 (Price -20.5, FOREX -2.2)
Cost reductions, etc.	3.7	Cost reductions 3.5, Repair costs -0.6, Permanent machine shutdown at Kushiro Mill 3.5, Labor costs 0.0, Logistics cost -2.7
Others	6.3	Overseas Business -0.9, Depreciation 2.6, Retirement benefit expenses -1.3, Inventory value adjustment, etc. 5.9
Paper and paperboard business	-7.0	
Daily-life products business	-1.4	Domestic -5.2 : Household paper and Healthcare -4.6, Others -0.6 Overseas 3.8 : Opal 2.2, NDP 2.1, Others -0.5
Other businesses	3.2	Energy -4.4, Wood products and construction related 0.0, Others 1.6, Acquisition-related expenses 6.0
Operating income	-5.2	
Non-operating income	6.9	Net financial cost -0.3, Equity in earnings of affiliates 3.4, FOREX 3.9, Others -0.1
Ordinary income	1.7	

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This is the analysis of the variances from previous year's results for which the forecast was changed.

First, while we will refrain from disclosing the breakdown, for the Paper and Paperboard Business, we expect a positive factor of JPY 5.7 billion from volume and sales price. This includes some of the effects of the price revisions announced yesterday. From raw material and fuel prices, we expect a negative factors of JPY22.7 billion. We have factored in the prices of coal, crude oil, and chemicals that have soared more than initially expected.

From cost reductions others, we expect a factor of JPY3.7 billion. This includes the effect of fixed cost reduction due to the withdrawal from the paper and pulp business at the Kushiro Mill, as well as cost reductions and so on. We have factored in JPY3.5 billion for each. The effect of the machine shutdown at Kushiro Mill, it is expected to appear as planned.

In the Daily-Life Products Business, we expect a decrease in profit by JPY1.4 billion compared to the previous year, and in its Domestic business, we expect a decrease in profit due to the impact of soaring raw material prices. In its Overseas business, we expect Opal's sales volume to recover in the second half of the fiscal year and synergy effects to emerge, resulting in an increase in profit for the full year.

As for the Energy Business, we have factored in the deterioration of earnings from the sale of surplus electricity due to the sharp rise in coal prices.

This concludes my explanation of the financial results for the second quarter. Thank you very much.

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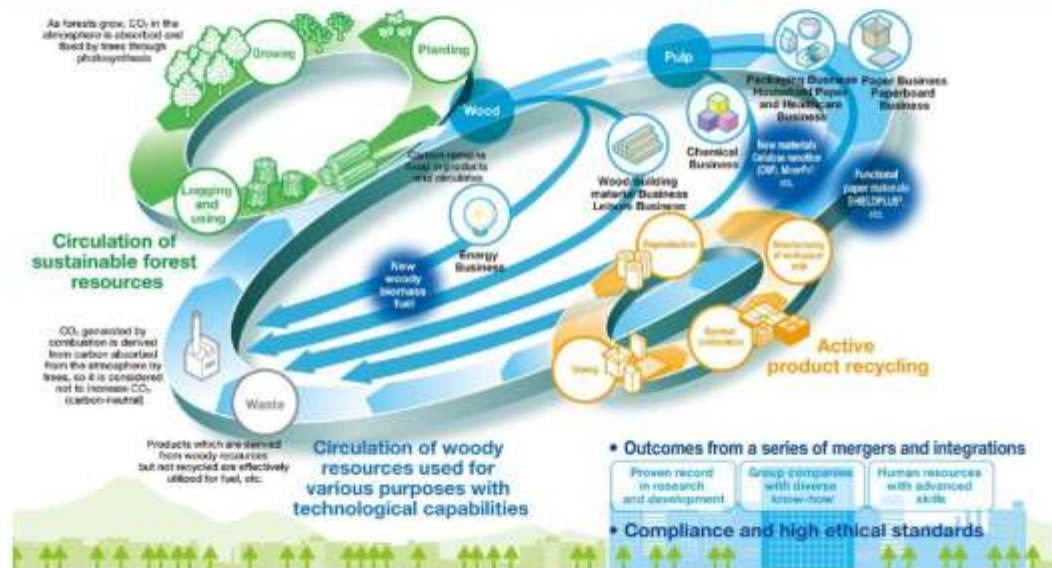
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Aiming to be a "comprehensive biomass company"



The Nippon Paper Group is a company group that consists of multiple businesses which generate stable profits and realize better living and cultural progress. It achieves this by using diverse technologies and know-how to maximize the use of renewable woody resources. This provides a wide range of products that help form a circulation-oriented society, supporting profit growth.



Achieving both "business growth" and "contribution to the construction of a recycling-oriented society" by strengthening "the Three Circulations" leveraging the characteristics of woody resources.

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Sebe: I am Sebe of the Corporate Planning Division of Nippon Paper Industries. I would like to explain the status of our efforts in the current fiscal year in relation to the "2030VISION" and the Medium-Term Business Plan 2025, which we announced in May this year, as well as our policies for the future.

In the "2030VISION", we have redefined what the Group aims to be in 2030 as a comprehensive biomass company. The details are as described, so please take a look.

By strengthening the Three Circulations leveraging the characteristics of renewable wood resources, which are the business foundation of our group, we aim to achieve both business growth and the creation of a recycling-oriented society.

In order to achieve this goal, we have formulated the Medium-Term Business Plan 2025, based on the recognition that it is important to first generate stable profits.

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Basic strategy	Accelerate the transformation of the business structure		
Key issues	<ul style="list-style-type: none"> • Reallocate management resources to the Growing Business • Accelerate enhancing profitability of the New Business • Reinforce the competitiveness of the Foundation Business 		
Financial Targets	<ul style="list-style-type: none"> • Net Sales • Operating Income • EBITDA • D/E ratio • ROE 	<ul style="list-style-type: none"> FY2026/3 At an early stage Stably FY2026/3 FY2026/3 	<ul style="list-style-type: none"> 1,100 billion yen 40 billion yen or more 100 billion yen 1.5 to 1.6 times 5.0 % or more

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This shows the basic strategy and financial targets of the Medium-Term Business Plan 2025.

In order to accelerate the transformation of our business structure, which is our basic strategy, we have identified 3 key issues. The first is to reallocate management resources to the Growing Business, which is essential for business structure transformation. The second is to early commercialization of New Business. The third is to reinforce the competitiveness of our Foundation Business by keeping an eye on demand trends.

We have positioned the 5 years of Medium-Term Business Plan 2025 as the pivotal 5 years to put our group on a growth track. In each of our businesses, we hope to achieve our goals by accelerating the transformation of our business structure while placing the utmost importance on speed.

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Progress of Medium Term Business Plan 2025 Financial Targets



Sales and operating income by segment

(Billion)

	FY2021/3 Results		FY2022/3 Initial Plan		FY2022/3 Revised Forecast		Medium Term Business Plan 2025 Targets	
	Net sales	Sales Profit	Net sales	Sales Profit	Net sales	Sales Profit	Net sales	Sales Profit
Paper and paperboard	568.3	2.5	535.0	1.5	535.0	(4.5)	490.0	5.0
Daily-life products	317.9	7.9	380.0	11.0	380.0	6.5	460.0	27.5
Energy	33.4	6.9	30.0	4.5	30.0	2.5	45.0	4.0
Wood Products and Construction Related	59.9	6.5	55.0	6.5	55.0	6.5	75.0	65
Others	27.8	1.4	30.0	1.5	30.0	3.0	30.0	2.0
Acquisition-related expenses	-	(6.0)	-	-	-	-	-	-
Energy conversion	-	-	-	-	-	-	-	(5.0)
Total	1,007.3	19.2	1,030.0	25.0	1,030.0	14.0	1,100.0	40.0

In FY2022/3, it will be difficult to achieve the initial plan due to rising raw material and fuel prices.

- Immediately formulate and implement measures to return to the track of achieving the medium term business plan
- Rapid shift to a business structure resilient to changes in the external environment

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Meanwhile, here is the state of net sales and operating income by segment for the current fiscal year, FY2022/3, or the first year of the Medium-Term Business Plan 2025.

As mentioned earlier in the explanation of the financial results, it has become difficult to achieve the initial plan for FY2022/3, due to soaring raw material and fuel prices, and we have revised our operating income forecast downward.

With a firm understanding of the current situation, we believe it is extremely important to formulate and implement measures as soon as possible to get back on track to achieve our target of JPY40 billion or more in operating income in our Medium-Term business plan. Our goal is to get back on track to achieve our Medium-Term business plan as soon as possible.

We will also hasten the transformation of our business structure into one that is strong enough to withstand changes in the external environment, such as raw material prices. To this end, we will accelerate the transformation of our business structure, which is our basic strategy, and in particular, we will firmly promote the expansion of the Daily-Life Products segment.

Now, I will explain our specific initiatives from the next page.

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Key themes to achieve the Medium-Term Business Plan 2025

Strengthen the base of Paper business	<ul style="list-style-type: none"> ◆ Steadily optimising production structure. ◆ Thorough cost reduction ◆ Sales price revision
Expand businesses in growth Areas Achieve early commercialization of new businesses	<ul style="list-style-type: none"> ◆ Providing valuable products to customers and society ◆ Development and sales expansion of eco-friendly products ◆ Expand markets of various biomass products such as CNF
Establishment of stable supply system (Strengthen BCP)	<ul style="list-style-type: none"> ◆ Being more resilient to natural disasters ◆ Secure multiple production sites for main grades
Response to climate change GHG reductions	<ul style="list-style-type: none"> ◆ Use less coal through energy saving and non-fossil fuel use ◆ Actively participating in global frameworks such as TCFD ◆ Participation in cutting-edge initiatives such as CCUS
Promotion of recycling	<ul style="list-style-type: none"> ◆ Maintaining existing wastepaper recycling system ◆ Taking on the challenge for utilizing hard-to-recycle wastepaper, such as paper containers
Green strategy	<ul style="list-style-type: none"> ◆ Leveraging forests as CO₂ absorption sources ◆ Revitalization of forestry and stable supply of wood resources

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These are the themes that we will focus on in order to achieve the goals of the Medium-Term Business Plan 2025, in light of the current situation. Please refer to the material for the details.

We consider the following issues to be particularly important: strengthening the base of the Paper business, expanding businesses in growth areas and achieving early commercialization of new businesses, establishing a stable supply system including BCP, responding to climate change and GHG reductions, promoting recycling, and green strategy.

We are determined to address these issues with a sense of speed, while I will explain the current status of our efforts, especially in the current fiscal year, on the next and following pages.

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Initiatives for FY2022/3 : Paper Business



- Closed pulp and paper production at Kushiro Mill as planned.
- Announced price revisions in response to soaring raw material and fuel prices.

Initiatives to optimize the production structure

- ◆ Reduced production capacity by approximately 500,000 tonnes
 - Withdrawal from pulp and paper business at Kushiro Mill (production terminated in August 2021)
 - The N6 paper machine at Ishinomaki Mill is scheduled to be shut down at the end of May 2022.
※ Released in May 2021
- Maximize use of existing facilities to maintain operating rates and ensure cost competitiveness.

Announced the implementation of price revisions

- Products : Overall printing paper, communication paper, and industrial papers
- Markup: 15% or more in each grade
- Effective from shipment date as of January 1, 2022 and after

- Reason for implementation
 - Soaring raw material and fuel prices
 - Rising logistics costs
 - Increase in labor expenses due to labor shortage (e.g. construction cost)

- Accelerate initiatives to reduce GHG emissions and provide products with little burden on the environment

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First, the Paper Business.

With regard to the optimization of our production structure to strengthen our business foundation, we terminated the pulp and paper production at Kushiro Mill in August this year as planned. Together with the N6 paper machine at Ishinomaki Mill, which is scheduled to be shut down at the end of next May, this will result in a reduction in production capacity of approximately 500,000 tons, but we will not delay in optimizing our production structure based on future demand forecasts.

As a result, we plan to fully utilize other existing facilities while maintaining their operating rates to increase our cost competitiveness.

In addition to this, yesterday we announced price revisions for printing, communication, and industrial papers. Although we have been making company-wide efforts to reduce costs thoroughly, including optimization of our production structure, soaring raw material and fuel prices, rising logistics costs, and rising labor costs due to a shortage of workers have exceeded the level that we can handle by our own efforts. We have asked our customers for their understanding.

In order to meet the demands of our customers and society, we will continue our efforts to reduce GHG emissions and stably deliver products with low environmental impact to our customers. Also in this regard, we would like to ask our customers for their understanding.

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Strengthen sales of paperboard and industrial papers

◆ Established a new joint venture with Mitsubishi Corporation Packaging Ltd.



• By leveraging the business foundations of both companies with the Group's strengths, we will provide environmental value and reform logistics, and enhance services and functions.

Development of new products that meet the needs of customers and society

◆ "Waterproof liner" is put into first practical use as part of the fresh fish transportation package of Nippon Suisan Kaisha, Ltd.

○ Main features of Waterproof liner

- Multi-function containerboard with waterproof, wet and oil resistance properties
- Approximately 96% reduction in fossil-derived raw materials compared to polystyrene foam containers of the same size
- Compared to styrene foam containers with the same internal dimensions, the outer dimensions are smaller, enabling a 30% reduction in loading space and improved transport efficiency.
- Recyclable as wastepaper after use



Image of transporting fresh fish using Waterproof liner

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The next item is the Paperboard Business.

First, we are working to strengthen our sales capabilities for paperboard and industrial papers. In the current fiscal year, we have decided to integrate the paperboard businesses of Mitsubishi Corporation Packaging, a member of the Mitsubishi Corporation Group, and Nippon Paper Trading, a direct distributor of our Group, and establish a new company in April next year.

By combining the business foundations of the 2 companies and the strengths of the 2 groups, we will be able to provide new product value and achieve logistics reforms, and we will further enhance our services and functions in order to achieve stable transactions and expand sales.

Next, we will continue to develop and sell new products that meet the needs of our customers and society. As an example, Nippon Suisan has adopted our multifunctional containerboard base paper, Waterproof liner as part of their fresh fish transportation packages, and has been using it since September. Not only does it contribute to a significant reduction in petroleum-based raw materials, but it is also recyclable.

We plan to expand sales of new products demanded by our customers, while promoting the provision of such environmentally friendly products and contributing to the resolution of social issues.

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Strengthen sales of filling machines and cartons, development of new products

- ◆ Development of new filling machines and new systems and expand sales by strengthening cooperation with Shikoku Kakoki Co., Ltd.
- ◆ Operation of the latest flexo printing press (October 2021)
- ◆ Successive adoption of new containers such as strawless school milk containers “SchoolPOP®” and “SPOPS® Hygiene”



Tomoe Milk Industry Furusato Milk

Further expansion of business base

- ◆ Acquired a portion of shares in Elopak ASA (June 2021)
 - Deepen cooperative relationships with Elopak ASA to expand business by mutually leveraging strengths in paper containers and filling machines
- ◆ Effective use of our own liquid packaging boards
 - Strengthen the foundation as a total system supplier by strengthening cooperation with domestic liquid packaging boards production mills and Nippon Dynawave Packaging (NDP)

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Next, the Paper-Pak Business.

We are expanding the Paper-Pak Business as one of the pillars of the Daily-Life Products segment.

We have been working with Shikoku Kakoki Co., Ltd. to develop and expand sales of new filling machines, and in October of this year, we introduced a state-of-the-art flexo printing converter at our Egawa Mill. Based on the above, we have launched a series of new products, such as SchoolPOP and SPOPS series, in response to the growing awareness of plastic-free and hygienic products.

In June this year, we acquired a portion of shares in Elopak ASA, a company engaged in the liquid paper container business mainly in Europe and North America, with the aim of further expanding our business foundation. The company is one of the world's leading suppliers of paper containers for liquid foods, with unique manufacturing and development technologies, and we have deepened our relationship with the company over the past 30 years. Through this acquisition of shares, we plan to further deepen the cooperative relationship between the 2 companies, promote the development of environmentally friendly packaging, and expand our business.

In the future, we intend to steadily strengthen our foundation as a total system supplier by developing high value-added, high-quality base paper in cooperation with our packaging boards production mills and our consolidated subsidiary NDP in the United States.

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Initiatives for FY2022/3 : Household Paper and Healthcare Business

Expand business by developing products that meet consumer needs.

◆ Penetration of long-lasting rolls progresses

- All toilet-roll products have been shifted to “long lasting rolls” from April 2021.

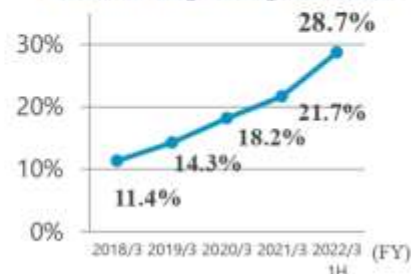
- Continue to promote products development that meets consumer needs and differentiation with unique technology

◆ Expansion of towel paper business

- Revamp existing tissue converting machine and introduce new box type paper hand towels to the market.
- Introducing new paper hand towel converting machines.
- Utilize distribution channels of Try-Fu Co., Ltd. and Nippon Paper Crexia Co., Ltd. to promote sales of both companies' products

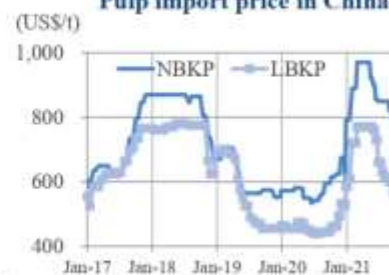
◆ Gain the benefits from integration of sales function with Try-Fu Co., Ltd.

Trends in long-lasting rolls share



• Research by Nippon Paper Crexia
“Long-lasting rolls ” is defined as a single 75m or more and double 37.5m or more (excluding Premium 4R)

Pulp import price in China



Source: RISI

Enhance cost competitiveness

◆ Expanding usage of internally-made pulp within our Group

- Maximize the use of the group's resources

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Next, the Household Paper and Healthcare Business.

In the Household Paper and Healthcare Business, we are focusing on business expansion through the development of products that meet consumer needs.

We will continue to develop differentiated products based on our unique technology and pursue value that will make our customers choose our products.

In addition, demand for paper towels has been strong due to the rise in hygiene awareness, so we are working to launch new box type paper hand towels using tissue converting machines. Last year, we integrated the sales functions of Try-Fu Co., Ltd. of the Tokushu Tokai Paper Group and the towel paper business of Nippon Paper Crexia, and we are working to utilize mutual sales network.

At the same time, we are working to strengthen our cost competitiveness. At present, we are expanding the use of internally-made pulp within our Group, and we are working to stabilize earnings and establish a business structure that is resilient to changes in the external environment.

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◆ 2021 Overview

- In 1st Half, impact of COVID-19 and operational challenges resulted in lower-than-expected earnings
- With a recovery in domestic demand and higher export prices, 2nd Half earnings are expected to improve, and full year earnings are also expected to improve year-on-year
- Value creation initiatives are progressing as planned

2021 sales volume (YOY)	Q1	Q2	2 nd Half fest.	Full Year fest.
Copy paper	-5.2%	+8.3%	+8.0%	+4.5%
Corrugated box (Australia)	-3.0%	-0.4%	+2.5%	+0.5%

◆ 2022 Outlook

- Opal aims to achieve a positive operating income in 2022 in line with the Mid-Term Business Plan 2025
- Cost reduction through value creation is being carried out as planned
2021 outlook: A\$18 million
2022 outlook: A\$25 million (A\$43 million in total)
- Packaging demand has been recovering from the impact of COVID-19
- Opal has won a new large-lot contract for copy paper and continues to promote its sales in Australian domestic market
- Rising ocean freight cost is a concern

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Next, Opal in Australian.

The recovery of Opal's profitability is a very important theme for us to achieve our mid-term plan. For the current fiscal year, as explained in the financial results, earnings deteriorated compared to the previous year due to the impact of COVID-19 and operational challenges in the first half. Meanwhile, we expect earnings to improve year on year for the full year, as cost reductions due to synergies are generally proceeding as planned, and we are seeing a recovery in domestic demand and rising export market conditions.

In addition, we believe that next year, FY2023/3, will be a very important year to put Opal on a growth trajectory, and we expect to return to profitability in line with our mid-term plan.

Cost reduction through synergy effects such as streamlining of procurement and logistics, and review of organizational structure is expected to generate AUD18 million in FY2022/3, and another AUD25 million in FY2023/3. As a result of the easing of the impact of COVID-19, we expect a recovery in demand for corrugated packaging and other packaging products, and in the paper division, we are working to establish a foothold in sales by winning new large contracts for copy paper. We are concerned about the rising cost of logistics due to the disruption of marine transportation, but we will take measures to mitigate the impact by planning and implementing countermeasures.

Again, we consider the recovery of Opal's profitability to be extremely important for achieving our mid-term plan, and we will quickly and steadily implement the necessary measures.

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CNF Lineup

Manufacturing base	Type	Main fields	Policy
Ishinomaki mill	TEMPO-oxidised CNF	General industrial applications	<ul style="list-style-type: none"> • Full operation of production facilities • Overseas sales expansion
	Metal ion carrying modified cellulose	Paper products, non-woven fabrics, etc.	
Gotsu mill	Carboxymethylated CNF	Food and cosmetics, etc.	
Fuji mill	CNF Reinforced Plastic	Structural materials (Automobiles and home appliances, etc.)	

Accelerate application development and search for new characteristics

- ◆ Expanded the demonstration production facility for CNF reinforced resin (Fuji Plant)
 - More than over 50 tonne-annual production of CNF reinforced resin masterbatch
 - Expanding the provision of samples of CNF reinforced PA6 and CNF reinforced PP
- ◆ Discovering the energy storage effect of CNF in a Joint research with Tohoku University
 - New characteristics discovered through external collaboration with other companies, universities and other research institutions
 - Started to develop an energy storage material that takes advantage of the characteristics of the energy storage effect.



CNF reinforced resin kneading facility

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Next, cellulose nanofiber, or CNF.

As you can see, we produce different types of CNF at our 3 manufacturing bases. The number of these applications is steadily increasing every year, and the fields in which they are used are gradually expanding. As for our future policy, we would like to start full operation of our current production facilities and promote sales expansion, including overseas.

In the current fiscal year, we expanded the demonstration production facility for CNF reinforced resin at the Fuji Plant to strengthen our development system in order to expand the market and applications of CNF. This will enable us to produce more than 50 tons of CNF reinforced resin masterbatch per year, which will accelerate the development of reinforced resins by kneading CNF with nylon, polypropylene, etcetera, for use in automobiles, construction materials, home appliances, etcetera.

We are also conducting joint research with Tohoku University on the energy storage effect of CNFs, and by strengthening external collaboration with universities and other research institutions, we will further discover the new potential of CNFs.

We will continue to make use of the collective strengths of our group and promote the strengthening of partnerships with external parties to achieve the early commercialization of CNF-related products.

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Expand sales by strengthening cooperation with customers

- ◆ Sales value of paper containers (molded products) for food application increased by 24% of the previous year (1H FY2022/3)
 - Demand for paper packaging increased due to growing interest in less plastic
 - The number of new adoptions increased by taking advantage of our extensive lineup of packaging paper and white paperboards
- ◆ Main examples of adoption
 - Paper packaging and pulp molding were jointly developed with Toshimaya Co. and adopted for the new packaging of Hato Sable, using Machine-glazed kraft paper and One-side-coated duplex board.



Toshimaya Hato Sable

More paper products in the flexible packaging market

◆ SHIELDPLUS® series is launched at Jujo Thermal

- Aiming to establish a position in the flexible packaging market at an early stage by offering a wide range of paper products for packaging applications, including new products

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Next, our efforts to remove or reduce plastics.

Our sales value of paper containers for food applications was 124% compared to the previous year, and we recognize that the needs for paper packages are increasing. In the future, we will strive for further expansion in anticipation of an economic recovery as convergence of the COVID-19.

Since we originally have a lineup of base paper suitable for paper containers, such as packaging paper and white paperboard, the number of new adoptions is gradually increasing. Recently, we have developed paper packages and pulp molds in collaboration with Toshimaya, known for its Hato Sable.

In the flexible packaging materials market, we have been making efforts to meet the needs of our customers, including not only the elimination of plastics with new products such as SHIELDPLUS® and LAMINA®, but also the reduction of plastics with hybrid packaging materials of paper and plastic film. We will provide a wide range of paper products and aim to establish a position in the flexible packaging market at an early stage.

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Lumber Business (Nippon Paper Lumber)

◆Expand domestic lumber sales

- Due to the increasing demand of lumber in US and China, the surge in prices of imported lumber products and shortages of lumber continues. We will promote a shift to domestic lumber products.
- We will work to further increase sales of domestic lumber, as revision of the law is expected to provide the positive effects of promoting the use of lumber not only in public buildings but also in general buildings.

◆Expand the fuel supply business for biomass power plants

- The volume of wooden fuel handled is expected to rise by 13% year on year in FY2022/3 due to an increase in biomass power plants.

Aiming to achieve an annual handling volume of one million m3 of domestic log by maximizing the use of a domestic lumber procurement network

Energy business

◆Construction of the Yufutsu Biomass Power Plant is on schedule (operation is planned to start in January 2023)

◆Expand sales in the wholesale electricity market and participate in demand response (DR)

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Next, the Lumber and Energy business.

The Lumber Business has been performing well in general, partly due to the effects of the wood shock. As prices of imported lumber continue to soar and shortages persist, momentum is building for the use of domestic lumber, and we are working to expand sales of domestic lumber products.

We are also steadily expanding the fuel supply business for biomass power plants, which continues to grow.

In the future, we will make the most of our nationwide domestic lumber procurement network to further promote the shift to domestic lumber and strive to build a stable earnings base.

The Energy Business. First, I would like to report that the construction of the Yufutsu Biomass Power Plant, which is scheduled to start operation in January 2023, is progressing smoothly. In addition, as mentioned earlier, with the termination of drastic-change mitigation measures for the FIT system, it has become difficult to secure the same level of profitability as before for existing projects. However, we will continue to expand sales in the wholesale electricity market and participate in demand response to strengthen our profitability.

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Strengthening Response for Natural Disasters

◆ Increase in natural disasters in recent years

Major Phenomena	Major Impact	
Jul. 2020 "the torrential rain in July 2020"	Yatsushiro Mill	Interrupted all production facilities due to rising turbidity of water intake from the Kuma River.
	Gotsu Mill	Interrupted all production facilities due to rising level of water in the Gonokawa River
Feb. 2021 "Offshore Fukushima Earthquake"	Iwanuma Mill	Suspension of all production facilities due to collapse of some walls and tops, etc.

Mill	Main measures
Iwanuma Mill	Implemented building strength countermeasures, such as changing the roofing material and reducing the weight
Gotsu Mill	Intake facility submergence countermeasures are being implemented, such as sealing the pumping room at the water source.
Yatsushiro Mill	Strengthen measures to clarify operating procedures for water facilities in the event of water quality deterioration

◆ Future Initiatives to Continue Product Supply

- Promoting multiple production bases for major products
- Pursuing strategic inventory allocation in addition to equipment support according to the risk of each site

We are also working to strengthen our BCP system in order to establish a stable supply system.

As you know, natural disasters such as typhoons, torrential rains, and earthquakes have been on the increase every year in recent years, and our factories have also been affected by natural disasters, such as the total shutdown of production facilities. We are currently working to strengthen our countermeasures against such natural disasters.

For example, the Yatsushiro Mill and the Gotsu Mill experienced the same torrential rains this year as last year, but as a result of the measures we have taken since last year, we were able to reduce the impact on production this year.

In addition, at the Iwanuma Mill, which was severely damaged by the earthquake off the coast of Fukushima Prefecture, we worked to improve the seismic strength of the building. In addition, we planning to implement earthquake-proof measures for its pulp production facilities at the Ishinomaki Mill.

We will continue to pursue the establishment of a stable supply system by establishing multiple production bases for major products and strategically allocating inventory, as well as promoting risk-based measures for equipment at each base.

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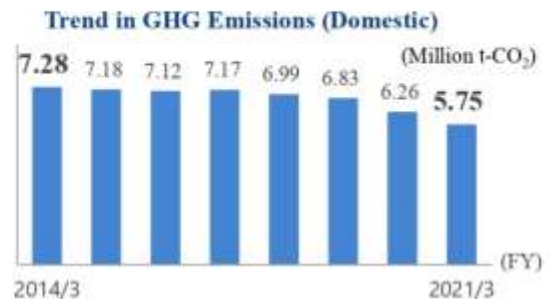


Initiatives to GHG Emissions Reduction



◆ Reduced GHG emissions by 21% in FY2021/3 compared with FY2014/3

- Reduced by 21% in FY2021/3 compared with FY2014/3 due to systematic investment in energy saving equipment and promotion of fuel conversion
- Review the energy mix toward FY2031/3, including efforts to reduce coal consumption through the use of non-fossil fuels such as woody biomass and establishment of boiler low-load operation technology



Reduce annual coal consumption to 1 million tonnes in FY2031/3
(FY2022/3 estimate : Approximately 2million tonnes)

* Total for Scope 1 and Scope 2

* Scope: Consolidated and non-consolidated Group companies in Japan subject to the Act on Rationalization of Energy Use

◆ Consigned business for NEDO study on energy-saving CO₂ separation and recovery

- Jointly with Takuma Co., Ltd., to conduct efficient CO₂ separation and recovery techniques and investigate issues related to commercialization

Aiming for practical application of CCUS techniques and realization of a circulation-oriented society

* NEDO: New Energy and Industrial Technology Development Organization

* CCUS(Carbon dioxide Capture, Utilization and Storage): CCSs are used to recover CO₂ discharged from power plants and plants from other gases and to store and inject them deeper into the ground. CCUs are also used to make effective use of CO₂ that has been separated and stored.

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Next, our GHG reduction efforts.

We have set a goal of reducing our GHG emissions by 45% by FY2031/3 compared to FY2014/3, and have already achieved a 21% reduction through FY2021/3. In the future, we plan to reduce the use of coal to about half of the current level of 1 million tons by FY2031/3 through systematic investment in energy conservation and promotion of fuel conversion, including the use of non-fossil fuels such as woody biomass and the establishment of boiler low-load operation technology.

As a new initiative, we have been commissioned by NEDO to conduct an energy-saving CO₂ separation and recovery project in cooperation with Takuma Co., Ltd., using the Yufutsu Biomass Power Plant as a model. We are determined to contribute to the realization of a carbon-neutral society in the future by working ambitiously toward the practical application of advanced technologies.

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Active product recycling contributes to solving social issues.

◆ Decided to install waste recycling facilities of paper containers for food and beverage applications.

○Current status

- Used paper containers do not suit for recycling because they are a composite material of paper and plastic and food residue adheres to the container
- No collection system because it is not subject to recycling

- Most of them are incinerated as general waste
- High market demand for the recycling of paper containers

- Expected to be able to efficiently produce recycled pulp from composite materials by introducing new facilities

◆ Outline of Waste Recycling Facilities

Location	Nippon Paper Industries' Fuji Mill
Start of operation	Sep. 2022 (planned)
Production capacity	8,000 tonnes per year

○Future Policies

In cooperation with our partner companies,

- Promote constructing a scheme for the separation and collection of paper cups and cartons
- Challenge "horizontal recycling," in which paper cups are recycled as paper cups
- Promote material and chemical recycling of plastic parts, and aim to recycle paper containers without incineration
- Aiming to stably collect 12,000 tonnes of recycled paper containers per year in 2030

In order to solve social issues, we are also working on promoting recycling.

We have decided to install a recycling facility for paper containers for food and beverages, which have been considered unsuitable for recycling due to their composite material, contamination and odor by residue.

For this effort, it is essential to establish a separation and collection scheme in cooperation with partner companies and the government. In order to solve social issues, together with partners with strong motivation, we would like to take on the challenge of horizontal recycling, starting from material recycling of paper cups or paper cup base papers as paper cups, then horizontal recycling of paper cups as paper cups, as well as material recycling or chemical recycling of plastic parts in the future.

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Initiatives to utilize forests as CO₂ absorber

◆ **Target: Increase CO₂ fixation efficiency rate by 30% in overseas afforested areas by FY2031/3.**

- Promoting the development of new clones at Amcel to further improve CO₂ fixed efficiency
- Developing afforestation business in Asia, including technological assistance.
- Promoting collaboration with government and other forest owners on establishing methods for evaluating CO₂ fixed quantities and crediting



Revitalizing domestic forest industry and stable supply of woody resources

◆ **Expanding seedling production business to various regions**

- Promoting the use of superior trees for afforestation in company-owned forests
- Collaboration with the Forestry Agency, local governments, seedlings associations, and seedling producers
- Contributing to the revitalization of local forest industries

◆ **Utilization of company-owned forests as a field for forestry revitalization**

- Developing advanced forestry technologies and promoting the formation of large-scale forestry business complexes in collaboration with other forest owners



Established tree grafting technologies

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Finally, the green strategy.

With regard to the utilization of forests as CO₂ absorber, we have set a target of improving the CO₂ fixation efficiency by 30% in our overseas plantation projects by 2030.

Amcel has been developing new, faster-growing clones for some time, and will continue to work on further improving CO₂ fixation efficiency.

In addition, we plan to expand our afforestation business in the Asian region, including the licensing of our proprietary breeding and propagation technologies. In addition, we are in the process of establishing a method to evaluate the quantity of CO₂ fixation and have started to discuss and consider the possibility of crediting with the government and other forest owners.

In order to revitalize the domestic forest industry and ensure a stable supply of woody resources, we will aim to promote the use of superior trees for new forests and contribute to the revitalization of local industries by expanding the seedling production business to various regions. We also intend to expand our efforts to revitalize the forestry industry by utilizing company-owned forests.

This concludes my explanation of the status of our efforts this fiscal year and our plans for the future.

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The Nippon Paper Group aims to contribute to better living and cultural progress everywhere it does business.

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NIPPON PAPER INDUSTRIES CO.,LTD.

Again, as I mentioned at the beginning, we believe that the 5 years of this mid-term plan are really important for our group. We would like to proceed steadily with the measures I have just explained with a sense of speed, and we would like to ask for your support. Thank you.

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