Event Summary

[Company Name]	Nippon Paper Industries Co., Ltd.	
[Company ID]	3863-QCODE	
[Event Language]	JPN	
[Event Type]	Earnings Announcement	
[Event Name]	Q2 Financial Results and Management Briefing for the Fiscal Year Ending March 2024	
[Fiscal Period]	FY2023 Q2	
[Date]	November 10, 2023	
[Time]	17:00 – 18:13 (Total: 73 minutes, Presentation: 43 minutes, Q&A: 30 minutes)	
[Venue]	Webcast	
[Number of Speakers]	Toru Nozawa	President and Representative Director
	Tomoyasu Itakura	Director, Executive Officer, and General Manager, Financial Division
	Akira Sebe	Executive Officer and General Manager, Corporate Planning Division
	Takanori Sano	General Manager, Corporate Planning Department

1st Half FY2024/3 Financial Results

Consolidated Statement

(¥billion)

	1st Half FY2023/3 Results	1st Half FY2024/3 Results	Variance	
			Amount	%
Net sales	550.9	**583.9**	33.0	6.0%
Operating income	-12.0	**4.9**	16.9	—
Ordinary income	-7.4	**5.8**	13.2	—
Net income *	-22.1	**-9.4**	12.7	—

* Profit attributable to owners of parent

- Net sales increased year-on-year because of price revisions and other factors.
- Operating income returned to profitability due to the contribution of cost reductions and price revision effects for products.
- Extraordinary gains were recorded due to the gain on sales of investment securities i.e., the sale of cross-shareholdings and others. Extraordinary losses were recorded due to the loss on withdrawal from graphic paper business of Opal.

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Itakura: I am Itakura from the Financial Division.

I would like to present an overview of the financial results for Q2 of FY2024/3.

Net sales increased 6% from the previous year to JPY583.9 billion, mainly due to the effect of various price adjustments.

As for profit and loss, operating income was JPY4.9 billion, an increase of JPY16.9 billion versus the same period last year due to the effects of cost reductions and the contribution of price revisions. In non-operating income/loss, equity in earnings of affiliates and foreign exchange gains decreased from the previous year.

In extraordinary gains and losses, a JPY2.6 billion gain on sales of investment securities resulting from the sale of policy stock holdings and other securities was recorded under extraordinary gains. On the other hand, a loss of JPY8.7 billion from withdrawal from Opal's graphic paper business was recorded as an extraordinary loss. As a result, ordinary income was JPY5.8 billion and net loss was JPY9.4 billion.

1st Half FY2024/3 Financial Results

Results by Segment

(¥billion)

	Net sales			Operating income		
	1st Half FY2023/3 Results	1st Half FY2024/3 Results	Variance	1st Half FY2023/3 Results	1st Half FY2024/3 Results	Variance
Paper and Paperboard	271.4	**286.4**	15.0	-9.9	**3.9**	13.8
Daily-Life Products	212.3	**218.5**	6.2	-5.3	**-5.0**	0.3
Energy	19.7	**28.3**	8.6	-1.9	**0.2**	2.1
Wood Products and Construction Related	33.4	**36.2**	2.8	3.9	**5.2**	1.3
Others	14.1	**14.5**	0.4	1.2	**0.6**	-0.6
Total	550.9	**583.9**	33.0	-12.0	**4.9**	16.9

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Net sales and operating income by segment are as shown.

Net sales increased in all segments, amounting to JPY583.9 billion. Operating income also increased, excluding other businesses. Details will be explained later in the segment results section.

1st Half FY2024/3 Financial Results

Variance Analysis

(¥billion)

		Paper and Paperboard Business		Daily-Life Products Business	
Volume, Sales Price	**44.4**	35.7	–	8.7	–
Raw material and fuel prices	**-24.3**	-19.0	Wood chips -5.7, Wastepaper -0.6, Pulp -0.3, Oil -0.4, Coal -4.3, LNG 0.1, Chemicals, etc. -7.8 (Price -11.9, FOREX -7.1)	-5.3	Pulp -1.7, Wood chips -0.5, Chemicals, etc. -3.1
Cost reductions,etc.	**5.9**	5.6	Cost reductions 2.9, Permanent machines' shutdown at the Akita Mill and the Ishinomaki Mill 0.7, Labor costs 1.4, Others 0.6	0.3	–
Others	**-11.9**	-8.5	Overseas business -2.1, Depreciation 1.6, Retirement benefit expenses 0.7, Inventory value adjustment, etc. -8.7	-3.4	Overseas business -2.3, Inventory value adjustment, etc. -1.1
Total	**14.1**	13.8	Domestic 15.9, Overseas -2.1	0.3	Domestic 2.6, Overseas -2.3
Other businesses	**2.8**	Energy 2.1, Wood Products and Construction Related 1.3, Others -0.6			
Operating income	**16.9**				
Non-operating income	**-3.7**	Net financial cost -1.2, Equity in earnings of affiliates -0.9, FOREX -0.7, Others -0.9			
Ordinary income	**13.2**				

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This is a breakdown of the increase/decrease factors.

Although the overall trend in raw material and fuel prices has been calming down, in H1 of FY2024/3 we continued to see a total cost increase of about JPY24 billion in the paper and paperboard, and daily-life products businesses due to raw material and fuel price differentials.

The paper and paperboard business by business segment saw an increase of JPY13.8 billion over the previous year. Volume and sales price were plus JPY35.7 billion. Although sales volume has decreased, price revisions for newsprint, printing, and business communication paper, and containerboard have contributed to the increase.

The price of raw materials and fuels, mainly coal and wood chips, was minus JPY19 billion. On the other hand, cost reductions and other benefits of JPY5.6 billion were realized as planned. This includes cost reductions through operational innovations, cost improvements such as energy conservation and fuel conversion, and the effects of fixed cost reductions due to the permanent machine shutdown at the Akita Mill and the Ishinomaki Mill.

The daily-life products business posted an increase of JPY0.3 billion versus the previous year. In the domestic business, the package, household paper and healthcare, and chemical segments all posted higher earnings, thanks to cost reductions and price revisions, despite the significant impact of surging raw material and fuel prices.

On the other hand, the overseas business suffered a large decrease in profit due to the significant impact of the decrease in sales volume caused by Opal's withdrawal from the graphic paper business. In other businesses, profits increased in the energy business and the wood products and construction-related business.

1st Half FY2024/3 Financial Results

Paper and Paperboard Business

(¥billion)

Net sales			Operating income		
1st Half FY2023/3 Results	1st Half FY2024/3 Results	Variance	1st Half FY2023/3 Results	1st Half FY2024/3 Results	Variance
271.4	**286.4**	15.0	-9.9	**3.9**	13.8

- Domestic
  - ・Domestic sales volume of paper and paperboard products decreased year-on-year due to sluggish demand.
  - ・Despite the impact of higher prices for raw materials and fuels such as wood chips and coal, operating income returned to profitability by the effects of cost reductions and the contribution of product price revisions.
- Overseas
  - ・Operating loss was recorded at Jujo Thermal (JTOy) due to sluggish demand for thermal paper in Europe and higher prices for raw materials and fuels.

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Here is an explanation of our performance by segment.

First, let me discuss the paper and paperboard business. In the domestic business, demand for both paper and paperboard remained sluggish, and domestic sales volume was lower than in the same period of the previous year. Despite the impact of higher prices for raw materials and fuels, such as wood chips and coal, operating income returned to the black as a result of cost reductions, including cost improvement and fixed cost reductions, as well as the effect of product price adjustments.

On the other hand, the overseas business, Jujo Thermal, posted an operating loss due to weak demand for thermal paper in Europe, in addition to higher raw material and fuel prices, including the impact of high electricity hedging.

As a result, the paper and paperboard business posted higher net sales and profits compared to the previous year.

1st Half FY2024/3 Financial Results

Daily-Life Products Business

(¥billion)

	Net Sales			Operating Income			
	1st Half FY2023/3 Results	1st Half FY2024/3 Results	Variance	1st Half FY2023/3 Results	1st Half FY2024/3 Results	Variance	
Domestic	94.9	**103.6**	8.7	0.4	**3.0**	2.6	Package 1.9, Chemical -1.0, Household paper and Healthcare 1.7
Overseas	117.4	**114.9**	-2.5	-5.7	**-8.0**	-2.3	Opal -4.7, NDP 2.3, TSP 0.1
Total	212.3	**218.5**	6.2	-5.3	**-5.0**	0.3	

● Domestic
- Sales volumes of toilet paper rolls and healthcare products increased.
- Sales volumes of functional films, facial tissues, and liquid-packaging cartons decreased.
- Despite the impact of soaring raw materials and fuels prices, the effect of product price revisions was realized. As a result, net sales and operating income increased.

● Overseas
- Opal recorded lower sales and earnings year-on-year, mainly due to lower sales volume following the withdrawal from graphic paper business.
- Nippon Dynawave Packaging (NDP) recorded higher sales and earnings despite lower sales volume, by the contribution of product price revisions.

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Next, I will explain the performance of the daily-life products business.

In the domestic business, sales volumes of toilet paper rolls and healthcare products increased, but sales volumes of functional films, facial tissues , and liquid-packaging cartons decreased.

While socioeconomic activities were normalizing, differences in demand trends were observed due to the impact of high prices and other factors. As a whole, despite the impact of higher raw material and fuel prices, cost reductions and product price revisions contributed to the increase in both sales and earnings.

Among overseas businesses, Opal's sales and earnings declined from the same period of the previous year, mainly due to a decrease in sales volume following its withdrawal from the graphic paper business, resulting in a larger deficit in operating income. NDP in North America reported an increase in both sales and earnings, despite a decline in sales volume, thanks to the contribution of product price revisions.

1st Half FY2024/3 Financial Results

Energy business

(¥billion)

Net sales			Operating income		
1st Half FY2023/3 Results	1st Half FY2024/3 Results	Variance	1st Half FY2023/3 Results	1st Half FY2024/3 Results	Variance
19.7	**28.3**	8.6	-1.9	**0.2**	2.1

・Both net sales and operating income increased due to Yufutsu Energy Center starting commercial operations and higher electricity prices and other factors.

Wood Products and Construction Related Business

(¥billion)

Net sales			Operating income		
1st Half FY2023/3 Results	1st Half FY2024/3 Results	Variance	1st Half FY2023/3 Results	1st Half FY2024/3 Results	Variance
33.4	**36.2**	2.8	3.9	**5.2**	1.3

・Although the sales volume of logs and building materials declined year-on-year due to a decrease in the number of new housing starts, the volume of fuel wood chips handled increased.
As a result, net sales and operating income increased.

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In the energy business, the Yufutsu Energy Center began commercial operation in February 2023 and is operating smoothly. Due in part to higher electricity prices resulting from surging raw materials and fuel prices, both sales and earnings increased, and operating income returned to the black.

However, Nippon Paper's Kushiro Mill, which is included in this segment, has been in the red due to a decline in selling prices linked to coal market conditions, as well as the impact of overpriced coal inventories. This figure is reflected in the result.

In the wood products and construction-related business, both sales and earnings increased due to an increase in the volume of fuel chips handled, although the number of new housing starts declined and the sales volume of logs and building materials products fell YoY.

1st Half FY2024/3 Financial Results

Consolidated Balance Sheets

(¥billion)

	Mar.31, 2023	Sep.30, 2023	Variance
Total assets	1,666.5	1,704.5	38.0
Cash and time deposit	144.3	135.1	-9.2
Inventories	238.5	242.9	4.4
Other current assets	244.8	260.6	15.8
Property, equipment, and intangible fixed asset	819.3	830.1	10.8
Investment and other assets	219.4	235.6	16.2
Total liabilities	1,251.3	1,266.7	15.4
Interests bearing liabilities	924.4	921.5	-2.9
Other liabilities	326.9	345.2	18.3
Total net assets	415.2	437.7	22.5
Shareholder's equity	303.7	294.3	-9.4
Total liabilities and net assets	1,666.5	1,704.5	38.0
Net interest-bearing debt	780.1	786.4	6.3
Adjusted Net D/E ratio * (times)	2.25	2.33	0.08

* 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 financed amount)

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This shows the balance sheet.

Total assets at the end of September 2023 amounted to JPY1,704.5 billion, up JPY38 billion from the end of the previous period. This was mainly due to the foreign exchange effects of the weaker yen on overseas operating companies and the fact that the end of September was a holiday.

Net interest bearing liabilities as of September 30, 2023 was JPY786.4 billion. With respect to the net D/E ratio, we present figures that take into account the amount of debt financed by hybrid loans that have been certified as equity by the rating agencies. At the end of September 30, 2023, the ratio was 2.33x.

Net interest bearing liabilities increased slightly at the end of September and from the end of the previous period. We expect to make steady progress in reducing net interest bearing liabilities, which we expect to shrink to around JPY750 billion by the end of March 2024. We will continue our efforts to reduce interest-bearing liabilities and restore capital to improve the D/E ratio.

FY2024/3 Forecast

Consolidated Statement

(¥billion)

	FY2023/3 Results	FY2024/3 Forecast	Variance	
			Amount	%
Net sales	1,152.6	**1,230.0**	77.4	6.7%
Operating income	-26.9	**24.0**	50.9	—
Ordinary income	-24.5	**18.0**	42.5	—
Net income *	-50.4	**15.0**	65.4	—

* Profit attributable to owners of parent

- The forecast for FY2024/3 has not changed since the release of May 15.
- However, the forecast for Net sales and operating income by business segment has been revised in consideration of the trends in the 1st half of the fiscal year.

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The following is an explanation of the earnings forecast.

There is no overall change in our full-year forecast for FY2024/3 from that announced on May 15. However, we have revised our forecast for the breakdown of net sales and operating income by segment, taking into account the trends in H1.

FY2024/3 Forecast

Results by Business

(¥billion)

	Net sales			Operating income		
	FY2023/3 Results	FY2024/3 Forecast	Variance	FY2023/3 Results	FY2024/3 Forecast	Variance
Paper and Paperboard	563.2	**606.0**	42.8	-29.2	**16.0**	45.2
Daily-Life Products	440.1	**450.0**	9.9	-7.8	**-5.0**	2.8
Energy	49.9	**68.0**	18.1	-1.7	**1.5**	3.2
Wood Products and Construction Related	68.9	**75.0**	6.1	8.9	**8.5**	-0.4
Others	30.5	**31.0**	0.5	2.9	**3.0**	0.1
Total	1,152.6	**1,230.0**	77.4	-26.9	**24.0**	50.9

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This shows net sales and operating income by segment.

Taking into account developments in H1, we have revised our forecasts for net sales in the paper and paperboard business and the daily-life products business. As you can see, we have revised our forecast for operating income in each segment.

FY2024/3 Forecast

Major Assumptions

■ Annual decline in domestic sales volume (YoY)

	2nd Half	Full year
Newsprint	-13%	-11%
Printing	-12%	-12%
Business communication	-4%	-5%
Containerboard	-2%	-4%

■ Major raw material prices and FOREX

	2nd Half	Previous forecast (Full year)
FOREX (USD)	JPY 150/USD	JPY 135/USD
FOREX sensitivity	+0.9 billion yen/year due to 1 yen appreciation against USD	+1.0 billion yen/year due to 1 yen appreciation against USD
Coal	Considering current procurement plan (Australian coal benchmark price：USD 200/t)	USD 300/t (Considering the impact of inventory conditions at the end of March 2023 and the risk of future price fluctuations)
Crude oil	USD 85/BL (Dubai)	USD 85/BL (Dubai)
Wastepaper	Considering current price trends	Considering current price trends

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The main assumptions for the forecast of financial results are listed here.

Domestic sales volume of paper and paperboard fell short of the initial plan for H1 due to a reaction to price revisions and consumers’ thrifty spending habits. For H2, we expect that sales will remain below the initial plan, taking into account the trends in H1 and the current situation.

See the table for key raw material and fuel prices and exchange rate assumptions for H2. Regarding the exchange rate, we have revised our forecast to JPY150 for H2, a depreciation of JPY15 from the initial JPY135.

Regarding coal, our assumption is based on the current procurement plan, but the benchmark for Australian coal for the current year, which was determined through negotiations between the power company and the supplier, is USD200. We will use a certain amount of coal from contracts based on that benchmark price in this H2. That is the premise of the plan.

FY2024/3 Forecast

FY2024/3 Forecast vs. FY2023/3 Variance Analysis

(¥billion)

		Paper and Paperboard Business		Daily-Life Products Business	
Volume, Sales Price	**74.6**	57.7	–	16.9	–
Raw material and fuel prices	**-13.1**	-7.3	Wood chips -8.1, Wastepaper 2.2, Pulp -0.3, Oil -0.8, Coal 8.4, LNG 1.5, Chemicals, etc. -10.2 (Price 6.8, FOREX -14.1)	-5.8	Wood chips -0.7, Pulp -1.9, Chemicals, etc. -3.2
Cost reductions,etc.	**10.5**	9.7	Cost reductions 5.9, Permanent machine shutdowns at the Akita Mill and the Ishinomaki Mill 1.1, Labor costs 2.2, Others 0.5	0.8	–
Others	**-24.0**	-14.9	Overseas business -2.1, Depreciation 2.8, Retirement benefit expenses 1.2, Inventory value adjustment, etc. -16.8	-9.1	Overseas business -6.5, Inventory value adjustment, etc. -2.6
Total	**48.0**	45.2	Domestic 47.3, Overseas -2.1	2.8	Domestic 9.3, Overseas -6.5
Other businesses	**2.9**	Energy 3.2, Wood products and construction related -0.4, Others 0.1			
Operating income	**50.9**				

Domestic: Package 2.9, Chemical 0.7, Household paper and Healthcare 5.7
Overseas: Opal -4.6, NDP -2.1, TSP 0.2

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This shows factors of increase or decrease for the full-year forecast.

First, in the paper and paperboard business, we estimate an increase of JPY45.2 billion over the previous year. Volume and sales price are plus JPY57.7 billion. Although sales volume is expected to decrease, the effect of product price revisions is expected to contribute to the increase.

We expect raw material and fuel prices to be minus JPY7.3 billion, mainly for wood chips and chemicals. Coal prices are expected to remain high, but are expected to turn positive on a YoY basis.

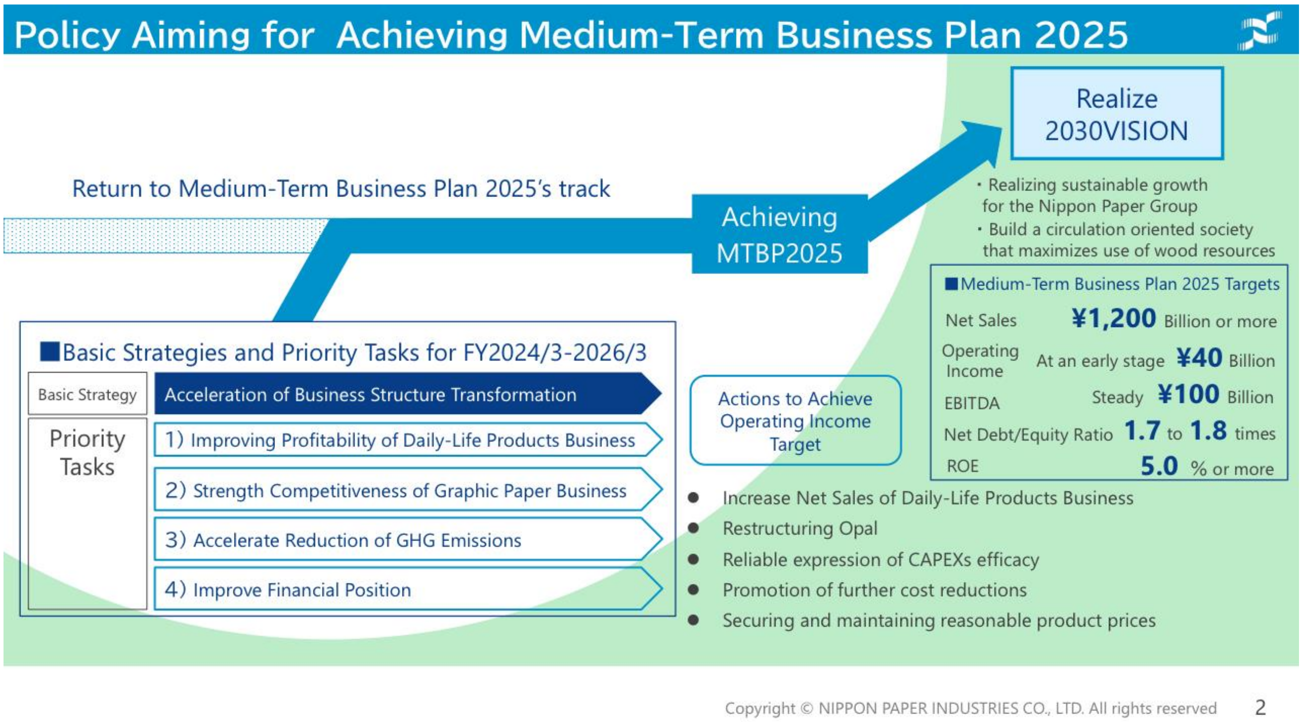
Cost reductions, et cetera, are expected to have a positive JPY9.7 billion effect, almost in line with the plan. As in H1, this includes the effect of fixed cost reductions due to permanent machine shutdown at the Akita Mill and Ishinomaki Mill, as well as cost reductions through operational innovations, energy conservation, fuel conversion, and other cost improvements.

In the daily-life products business, we forecast a JPY2.8 billion increase in profit over the previous year. We expect the domestic business to increase profit YoY, partly due to the effect of price adjustments, while the overseas business is expected to decrease due to deteriorating market conditions and other factors. We expect Opal to be affected by the withdrawal from the graphic paper business and the recent market deterioration, and NDP to be affected by the decline in sales volume in H2.

For the next fiscal year, FY2025/3, as I will explain later in the strategy, we can expect improved profitability at Opal's Maryvale mill, as well as investment benefits from the launch of Crecia-Kasuga No. 3 paper machine and the Miyagi Mill.

In the electric power business, the Kushiro Mill was dragging a bit. We are already reviewing the terms and conditions of this sales contract and taking other steps that will lead to the next fiscal year. Although the outlook for H2, which will serve as the basis for this plan, is uncertain due to foreign exchange rate trends and other factors, we will continue to add to cost reductions and maintain and review product prices with an eye on the next fiscal year.

This concludes my explanation of Q2 financial results summary. Thank you very much.



Sebe: I am Sebe of Nippon Paper's Corporate Planning Division. Thank you. I will explain our strategies, focusing on our plans for FY2024/3 and our efforts to achieve the goals of our Medium-Term Business Plan 2025.

This is a reiteration of the strategies and goals of the Medium-Term Business Plan 2025.

Based on the basic strategy of accelerating business structure transformation and the four key issues, we are pursuing business and capital strategies that respond to changes in the external environment.

Since the start of this medium-term business plan in 2021, we have experienced major changes in the external environment, such as unprecedented price hikes for raw materials and fuel. However, we believe that if we take appropriate actions, it is fully possible to achieve our goals by FY2026/3. We regard the current fiscal year, FY2024/3, as a very important year in the process of getting back on track for the medium-term business plan. We will explain in detail on the following pages and beyond.

Earnings situation in FY2024/3

Operating income by segment, domestic and overseas

(¥billion)

	FY2024/3 1st Half Results	FY2024/3 2nd Half Forecast	FY2024/3 Full year Forecast	FY2023/3 Results	Variance
Paper and paperboard	3.9	12.1	16.0	-29.2	45.2
Daily-life products	-5.0	0.0	-5.0	-7.8	2.8
Energy	0.2	1.3	1.5	-1.7	3.2
Wood Products and Construction Related	5.2	3.3	8.5	8.9	-0.4
Others	0.6	2.4	3.0	2.9	0.1
Domestic	12.1	23.1	35.2	-24.1	59.3
Overseas	-7.2	-4.0	-11.2	-2.8	-8.4
Total	4.9	19.1	24.0	-26.9	50.9

- Operating income returning to profitability from Q1, and the total remained at the planned level
- Domestic earnings recovered due to cost reductions and price revisions. Overseas earnings struggled more than expected due to deteriorating market conditions, etc.
- Daily-life products business expected to record operating loss due to a delay in recovering earnings at the Maryvale Mill in Opal

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This chart shows operating income by segment.

As explained earlier, as you can see, in FY2024/3, with the exception of the wood products and construction -related businesses, we expect earnings in all segments to improve compared to FY2023/3.

In particular, we are seeing steady results from our efforts to rebuild the paper and paperboard business, which suffered a significant deterioration in profitability in FY2023/3. Overall, operating income has returned to the black since Q1, and total operating income is generally in line with the plan.

For the domestic business, we expect a significant improvement of JPY59.3 billion from the previous fiscal year as a result of cost reductions and price adjustments, which will lead to a recovery in earnings. On the other hand, the overseas business is struggling with a projected loss of JPY11.2 billion due to the deteriorating business environment caused by global inflation and declining demand. In particular, the recovery of earnings at Opal’s Maryvale Mill has been delayed, and the daily-life products business is expected to post a loss.

Increase profitability in Daily Life Products Business

- Domestic : Net sales steadily expanded, and the operating income margin recovered as expected in the first half of FY2024/3
- Overseas : Net sales and operating income are at low levels due to worldwide deterioration in the market and a delay in recovering earnings in Opal

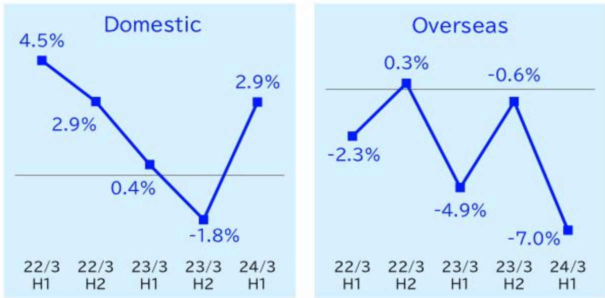
Net sales Trends (¥billion)

	FY2022/3		FY2023/3		FY2024/3
	1st Half	2nd Half	1st Half	2nd Half	1st Half
Domestic	90.5	92.8	94.9	97.0	103.6
Overseas	99.2	104.0	117.4	130.8	114.9
Total	189.7	196.8	212.3	227.8	218.5
Net Sales Ratio	37%	37%	39%	38%	37%

Operating income Trends (¥billion)

	FY2022/3		FY2023/3		FY2024/3
	1st Half	2nd Half	1st Half	2nd Half	1st Half
Domestic	4.1	2.7	0.4	-1.7	3.0
Overseas	-2.3	0.3	-5.7	-0.8	-8.0
Total	1.8	3.0	-5.3	-2.5	-5.0

Operating income margin



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First, I will explain how we are strengthening the profitability of its daily-life products business.

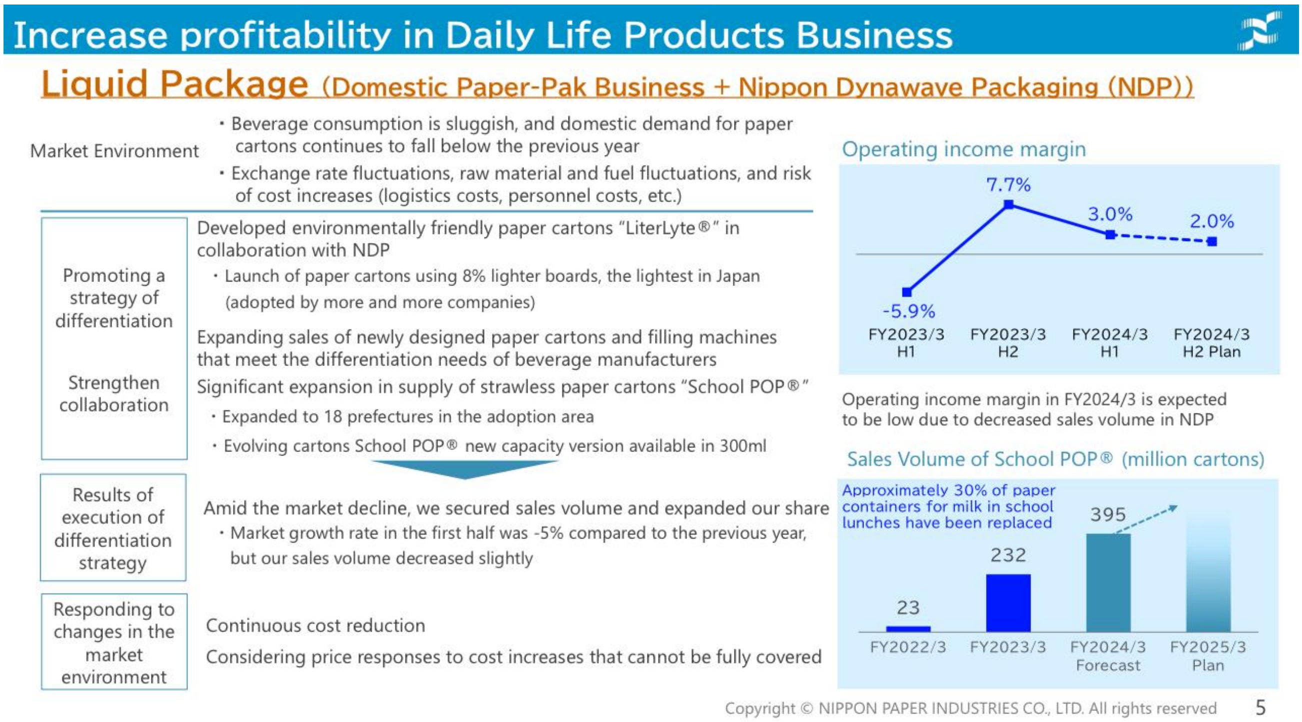
As I explained in May, we are focusing on expanding net sales and recovering the operating income margin in order to strengthen the profitability of the daily-life products business.

Net sales in the domestic business are steadily increasing as shown in the table. The operating income margin bottomed out at minus 1.8% in H2 of FY2023/3 and was positive 2.9% in H1 of FY2024/3, indicating that the profitability of the domestic business is recovering as expected.

On the other hand, in the overseas business, net sales are on an expansionary trend due to the impact of foreign exchange rates and price increases, but in H1 of FY2024/3 net sales decreased due to Opal's withdrawal from the graphic paper business.

As shown in the graph, the operating income of the overseas business remains in a severe situation due to the global sales slump and the delayed recovery of earnings at the Opal Maryvale Mill. We recognize that a major issue is to strengthen the profitability of our overseas business centering on Opal.

The status of each business will be explained on the following pages.



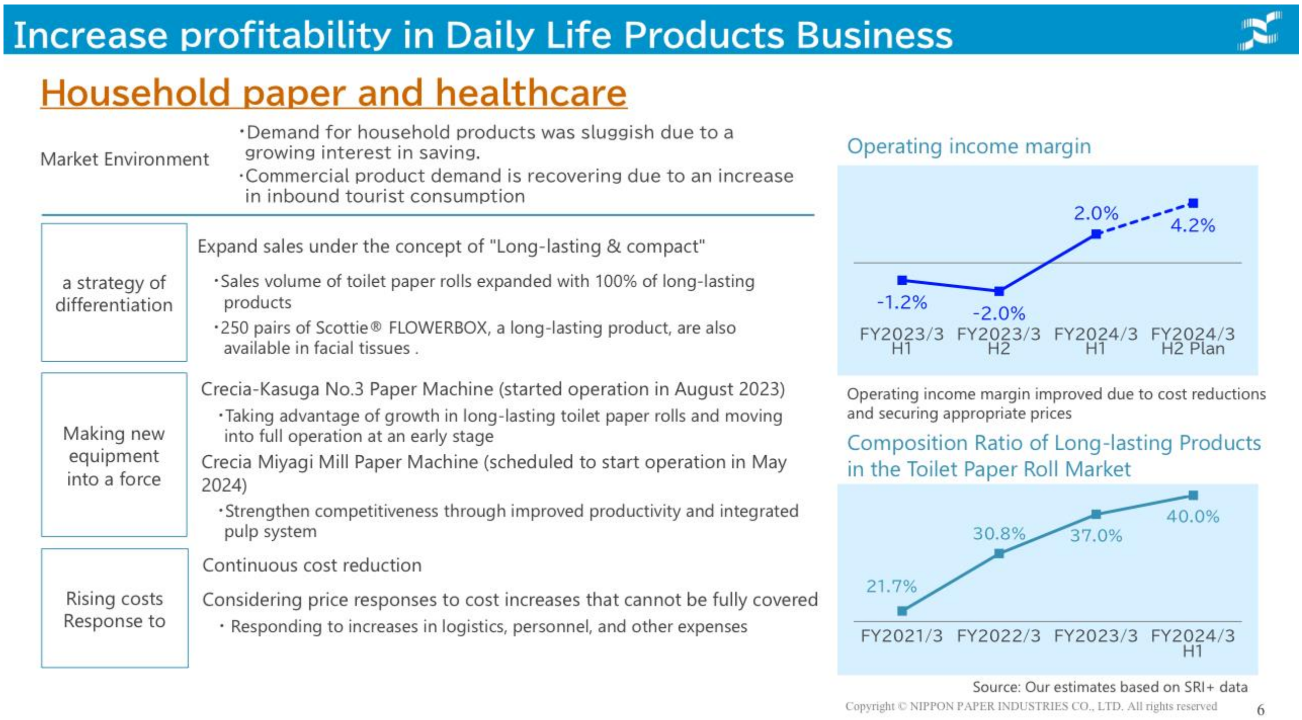
First, I would like to discuss the liquid package business, which is a combination of Nippon Paper's paper-pak business and Nippon Dynawave Packaging, NDP, in North America.

Domestic demand for paper containers continues to fall below the previous year's level due to sluggish consumption of milk and other beverages, but the Group is expanding its sales share under such circumstances by strengthening its differentiation strategy and collaboration.

In October, we released LiterLyte, an environmentally friendly paper carton using 8% lighter boards jointly developed with NDP, and its adoption by customers has been steadily increasing. We plan to continue expanding sales of newly designed paper cartons and filling machines that meet the differentiation needs of beverage manufacturers.

In addition, the supply of School POP®, strawless paper cartons, is expanding for use in school lunch programs. In FY2024/3, we expect to supply approximately 400 million sheets in 18 prefectures, which is expected to be used in approximately 30% of paper cartons used for milk in school lunches.

Although the domestic paper cartons business in H1 of FY2024/3 decreased by 5% YoY, these efforts have enabled us to secure sales volume and increase our market share. On the other hand, there is still a high possibility that costs will rise, such as increases in raw material prices and logistics costs, including the impact of the weak yen. We will continue to strive for thorough cost reductions, and will consider appropriate pricing for cost increases that cannot be covered. That is all for liquid package.



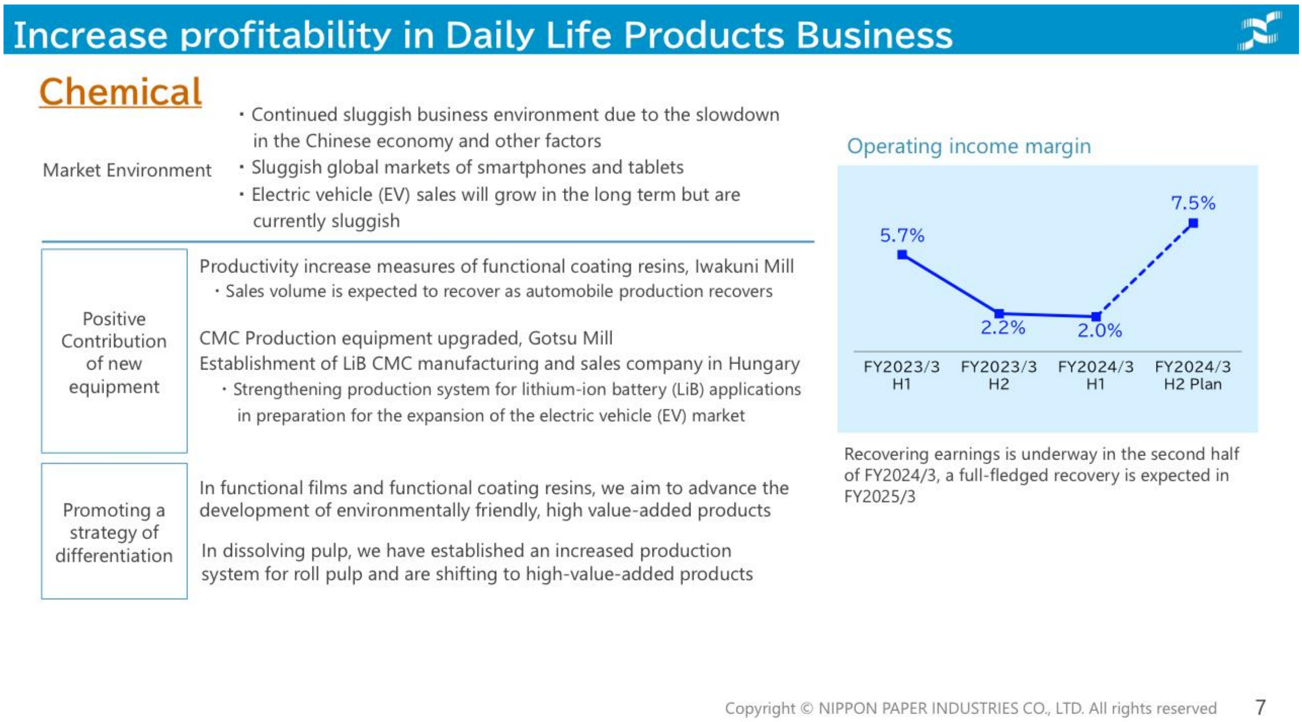
Next, I would like to discuss the household paper and healthcare business.

Demand for household products is generally sluggish at the moment due to consumers' increasing thriftiness, et cetera. On the other hand, business products for hotels are showing a recovery trend due to an increase in inbound consumption. Against this backdrop, the Group worked to reduce costs and revise prices, and earnings in the household paper and healthcare businesses steadily improved.

As a sales strategy, the Company is promoting product differentiation and the enhancement of the competitiveness of new facilities. In terms of differentiation of household products, we are working to expand sales based on the concept of long-lasting and compact products. As for toilet paper rolls, we have been switching all our products to long-lasting products since 2021, and have steadily increased sales volume so far. We have recently launched long-lasting products in facial tissues as well, aiming to expand our market share in the future.

As for new facilities, as explained earlier, Crecia-Kasuga No. 3 paper machine started operation in August this year, and we plan to capture the growing demand for long-lasting toilet paper rolls, such as triple rolls. In addition, we plan to start operation of a new paper machine at the Crecia Miyagi Mill in the Nippon Paper Ishinomaki Mill next year, which will establish an integrated production system from pulp to finished products, thereby strengthening our competitiveness.

On the other hand, the household paper and healthcare business also faces a major challenge in dealing with rising distribution, labor, and other costs in the future. We will continue to promote cost reductions and consider appropriate pricing for cost increases that we cannot cover.

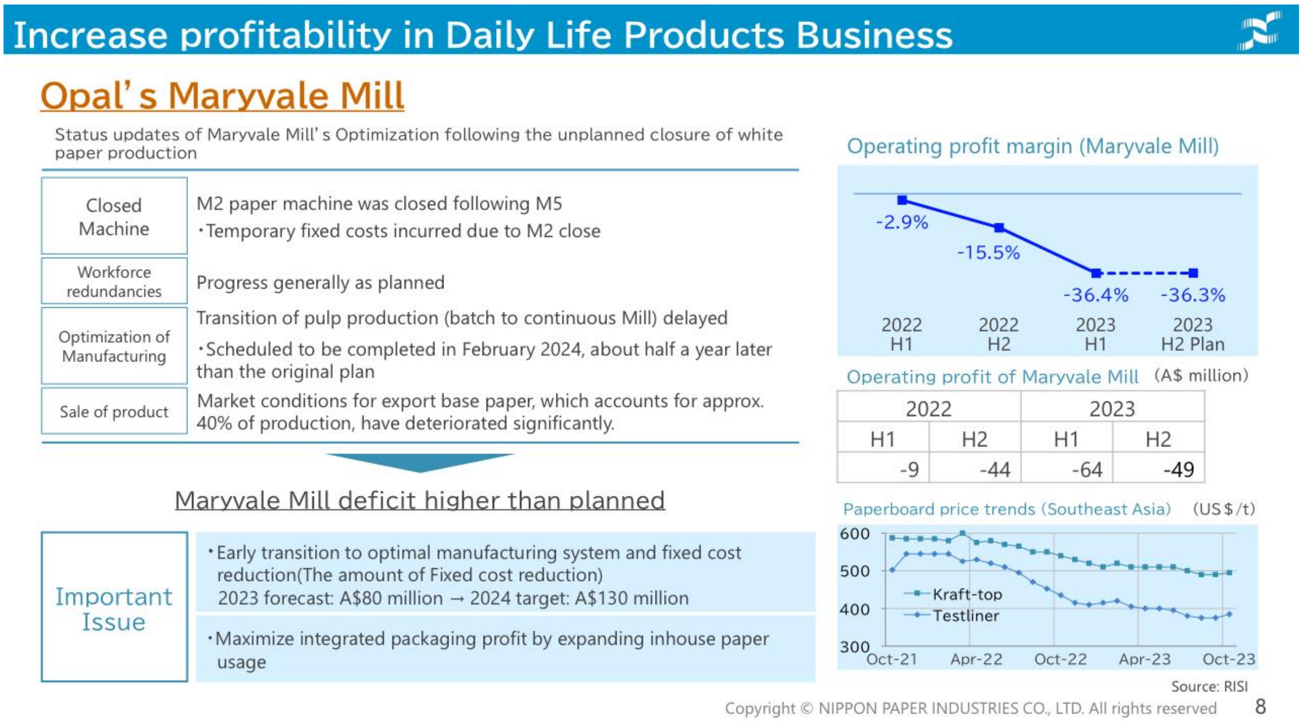


Next, I will explain the chemical business.

Although the Group's chemical products cover a wide range of fields, sales volumes were generally sluggish in H1 due to the economic slowdown in China and other factors. For example, sales of functional films have declined due to the global sluggish demand in smartphone and tablet business, or sales of functional coating resins and CMC for lithium-ion batteries have declined due to the slowdown in electric vehicle sales. We will carefully assess future market trends.

On the other hand, the market for many of the Group's chemical products is expected to grow over the medium to long term, and the Group is systematically implementing measures to increase production of functional coating resins and CMC, or to upgrade its facilities in anticipation of future demand growth. With regard to lithium-ion batteries for automotive applications, we are constructing a CMC processing plant in Hungary, aiming to start operation by the end of 2024, as demand is expected to grow rapidly in Europe. We plan to expand our earnings by increasing the strength of these operations.

In the area of functional films and functional coating resins, we are moving ahead with the development of environmentally friendly products, and in the area of dissolving pulp, we are planning to increase production of high value-added roll pulp. In FY2025/3, we intend to expand sales through such differentiation. Although the timing of a full-fledged recovery in the Chinese market is uncertain, we expect earnings to gradually recover from H2 onward toward 2024, as sales volume has recently been picking up.



Next, I will explain the issue of Opal.

On this page, I will first explain the Maryvale Mill, which is a particular challenge. The rebuilding of the Maryvale Mill, which withdrew from the graphic paper business, is currently our biggest challenge in strengthening the profitability of the daily-life products business.

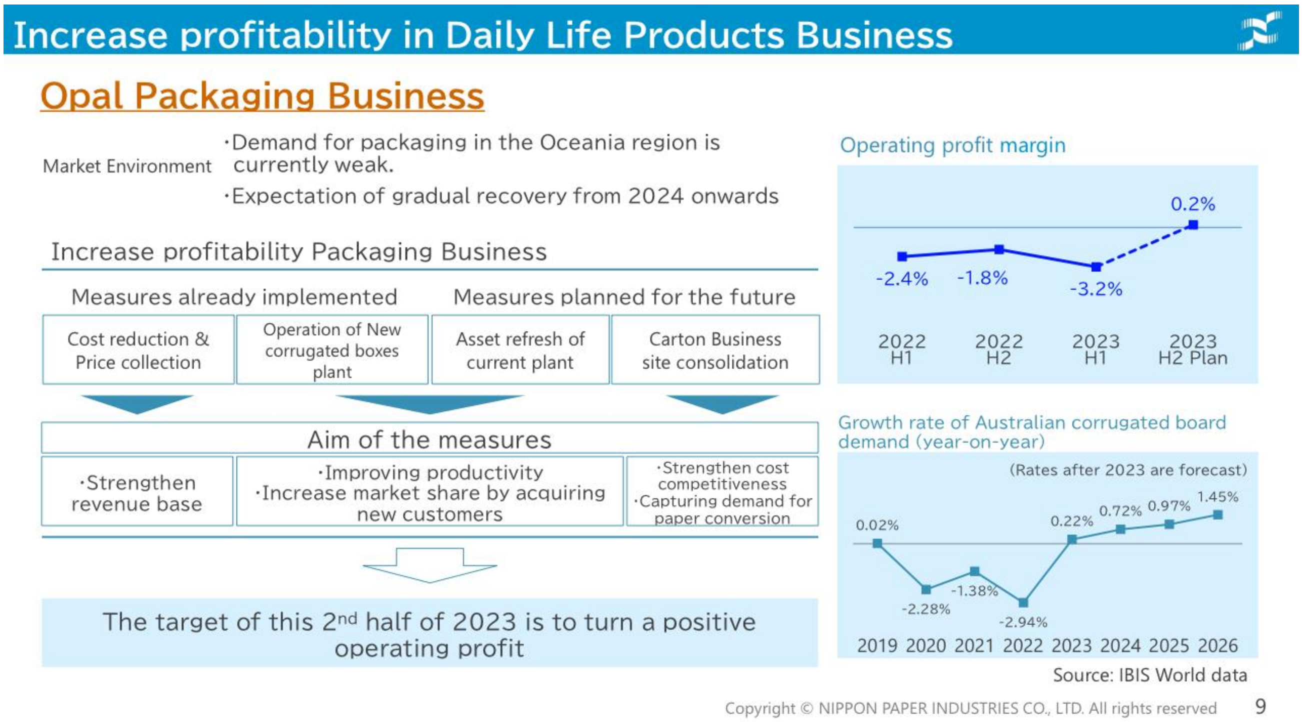
As already announced, the M5 paper machine was followed by an additional M2 paper machine in September, bringing the total number of paper machines to three. While this is expected to reduce costs in the next fiscal year and beyond, for the current fiscal year, the additional closures have resulted in a temporary fixed cost burden.

The initial plan to optimize personnel is generally progressing as expected. On the other hand, the construction work to shift pulp production for packaging from batch to continuous mill, in order to optimize the production system, took time to obtain development permits from the state government and is expected to be completed in February 2024, about six months later than originally planned, which has resulted in a delay in the realization of benefits.

In terms of sales, the market for export base paper, which accounts for more than 40% of our production volume, has deteriorated significantly, putting significant pressure on earnings. As a result, the deficit at the Maryvale Mill is expected to increase to AUD113 million in FY2024/3.

In response, toward FY2025/3, we will promptly shift to an optimal production system and quickly promote cost reductions by reducing fixed costs and improving production efficiency. We plan to reduce fixed costs by an additional AUD50 million in FY2025/3, but will consider further reductions if necessary. We also plan to steadily improve our cost structure by shifting pulp production to a continuous mill to improve intensity and energy efficiency. In addition, we will aim to maximize earnings in the overall package business by expanding internal sales in place of exports, which are subject to unstable market conditions.

To reiterate, we recognize that improving the profitability of the Maryvale Mill is our biggest challenge for the time being, and we will work on it with a sense of speed.



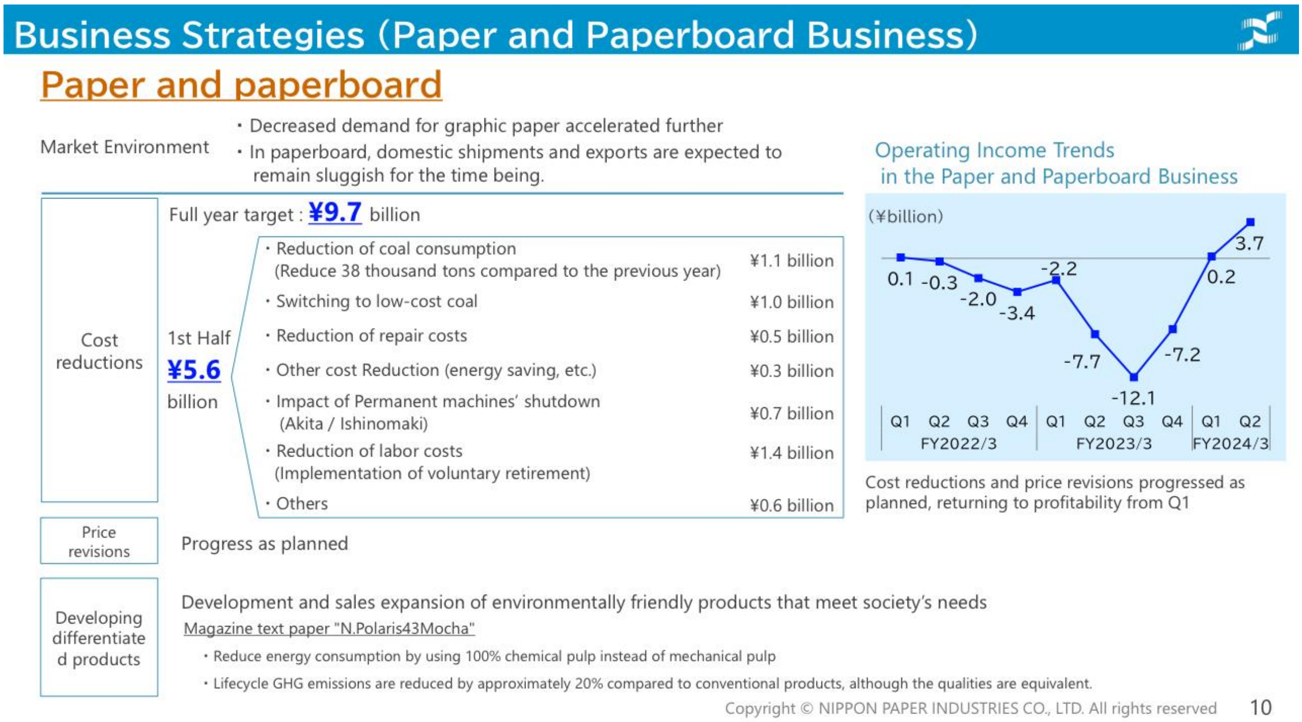
Next, I will explain our efforts to strengthen the profitability of Opal's packaging business.

The packaging business in Australia has remained sluggish due to the impact of the COVID-19 and other factors, and although it is still weak, we expect it to recover moderately from FY2025/3 onward. Since last year, we have been reducing costs and adjusting prices to strengthen profitability, and profits and losses in the packaging business are improving and have recently returned to the black in a single month.

In August, a new corrugated boxes plant started operation as planned in Victoria. We intend to expand our market share by aggressively acquiring new customers by upgrading aging facilities at existing plants to increase our corrugated boxes production capacity and improve our cost competitiveness.

In addition, we will consolidate production bases in the carton business to enhance cost competitiveness and promote earnings growth by capturing paper conversion demand. In the packaging business, we are making steady progress in improving profitability, and our first goal is to return to profitability in H2 of FY2024/3, which we hope will lead to full-scale earnings growth in FY2025/3 and beyond.

We will push forward with rebuilding the Maryvale mill and strengthening the profitability of this packaging business to ensure that the Opal business will be a competitive force in FY2025/3 and beyond. This is all about strengthening the earning power of the daily-life products business.



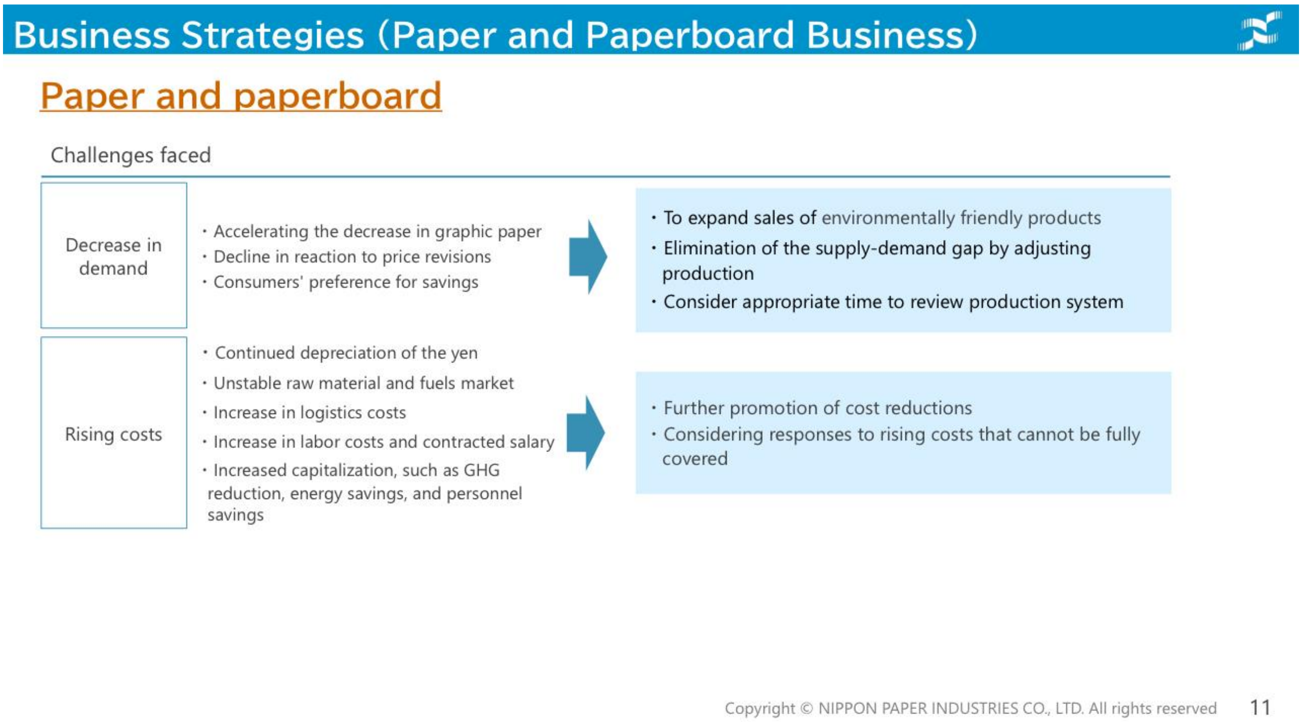
Next, I will explain the paper and paperboard business.

In the near term, the contraction of demand for graphic paper is expected to further accelerate, and the situation for paperboard is expected to remain weak in both domestic shipments and exports for the time being. Despite these circumstances, the paper and paperboard business returned to profitability from Q1 of this fiscal year and remained profitable in Q2, thanks to the steady effects of operational stability and cost reductions, as well as price revisions that progressed as planned.

In FY2024/3, we are aiming for a full-year cost reduction effect of JPY9.7 billion, or approximately JPY10 billion. As mentioned earlier, the cost reduction effect in H1 was JPY5.6 billion, which was in line with our expectation.

In the area of cost improvement, reductions in coal consumption, switch to low-cost coal, reductions in repair costs, and energy conservation have been effective, and in fixed costs, the effects of permanent machine shutdown and reductions in labor costs have been realized as planned. We will continue to aggressively pursue cost reductions so that we can further increase the amount of benefits in the future.

In the printing paper category, amid growing interest in environmentally friendly products, we have developed and launched a high-quality magazine text paper that reduces lifecycle GHG emissions by approximately 20%. In the graphic paper field, where demand is declining at an accelerating pace, we intend to take on the challenge of expanding sales by creating products demanded by customers to make full use of the advanced papermaking technologies we have cultivated over the years.



Here I would like to touch on the challenges facing the paper and paperboard business and the policy for dealing with them.

The first issue, I repeat, is the decline in demand. We expect the decline in demand to further accelerate, especially for graphic papers, due to the backlash from price revisions and consumers' increasing thrifty spending habits.

In response to this, the first is to expand sales of environmentally friendly products, such as those we have just introduced. We will then address the immediate supply-demand gap through efficient production adjustments, while at the same time considering the appropriate timing for reviewing the production system. It is our policy to continuously review our production system with a view to the future ideal in backcasting.

Another challenge is rising costs. We recognize that there is an increasing likelihood that various costs will rise in the future, including the ongoing depreciation of the yen, unstable raw material markets, rising logistics and labor costs, and increased fixed costs due to investments in GHG reductions, energy conservation, and labor-saving.

We intend to respond to cost increases by first reducing costs further. We will continue to improve cost of sales through energy conservation and other measures, and reduce fixed costs. On the other hand, we will also consider additional measures in the event of cost increases that cannot be covered by cost reductions.

We will aim to stabilize the profitability of the paper and paperboard business while steadily responding to the challenges we face.

Business Strategies (Energy Business)

Energy

Basic Policy ・Securing stable revenue, mainly in the field of biomass power generation

Yufutsu Energy Center	Steady in the first half and continued stable operations to secure stable earnings
Nippon Paper Ishinoki Energy Center	Steady in the first half and continued stable operations to secure stable earnings Promote biomass mono-firing power plant (26%→42%) (scheduled for completion in December 2023)
Kushiro MIll Power generation business	・Despite a drop in sales prices linked to the Coal Index Price, the arrival of expensive Coal worsened revenue. ・Switching to low-cost coal and revising sales contract conditions

Operating income margin

Increase the ratio of biomass mono-firing power plant
Nippon Paper Ishinomaki Energy Center

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I would like to continue with the energy business.

In the energy business, we will secure stable earnings, mainly from biomass power generation, while utilizing the operational know-how we have cultivated in our existing businesses or the Group's wood resource procurement base.

The Yufutsu Energy Center and the Nippon Paper Ishinomaki Energy Center, which started commercial operation in February of this year, are operating smoothly, and earnings in the energy business are improving. We will continue our efforts to maintain stable operations and stable earnings.

In addition, the Nippon Paper Ishinomaki Energy Center is currently undergoing construction to increase the biomass fuel consumption rate to 42%, which is scheduled to be completed in December of this year. We will aim to achieve early effects.

On the other hand, the power generation plant at Nippon Paper' Kushiro Mill, as explained earlier, experienced a decline in earnings this fiscal year due to the arrival of overpriced coal, while the selling price, which is linked to coal market conditions, declined. We will work to improve profitability by switching to low-priced coal and reviewing the terms and conditions of sales contracts.

Through these efforts, we plan to further expand earnings in the energy business in FY2025/3.

Business Strategies (Wood Products and Construction Related Business)

Wood/Building Material

Basic Policy	・Strengthen procurement capabilities for raw materials and fuels and expand earnings in the wood-related business
Expansion of domestic wood business	Target for 1 million ㎥ of domestic wood (FY2024/3 estimate 0.9 million ㎥)
Expansion of the Fuel Business	To expand domestic and international procurement of biomass fuels Promote the use of waste fuels (including the operation of waste tire processing equipment in the Fuji Region)
Expanding overseas business	Established bases in Vietnam and Thailand and strengthened procurement capabilities for raw materials and fuels overseas

Transition in the Volume of Domestic wood Handled (Nippon Paper Lumber)

Volume of Fuel Handled(Nippon Paper Lumber)

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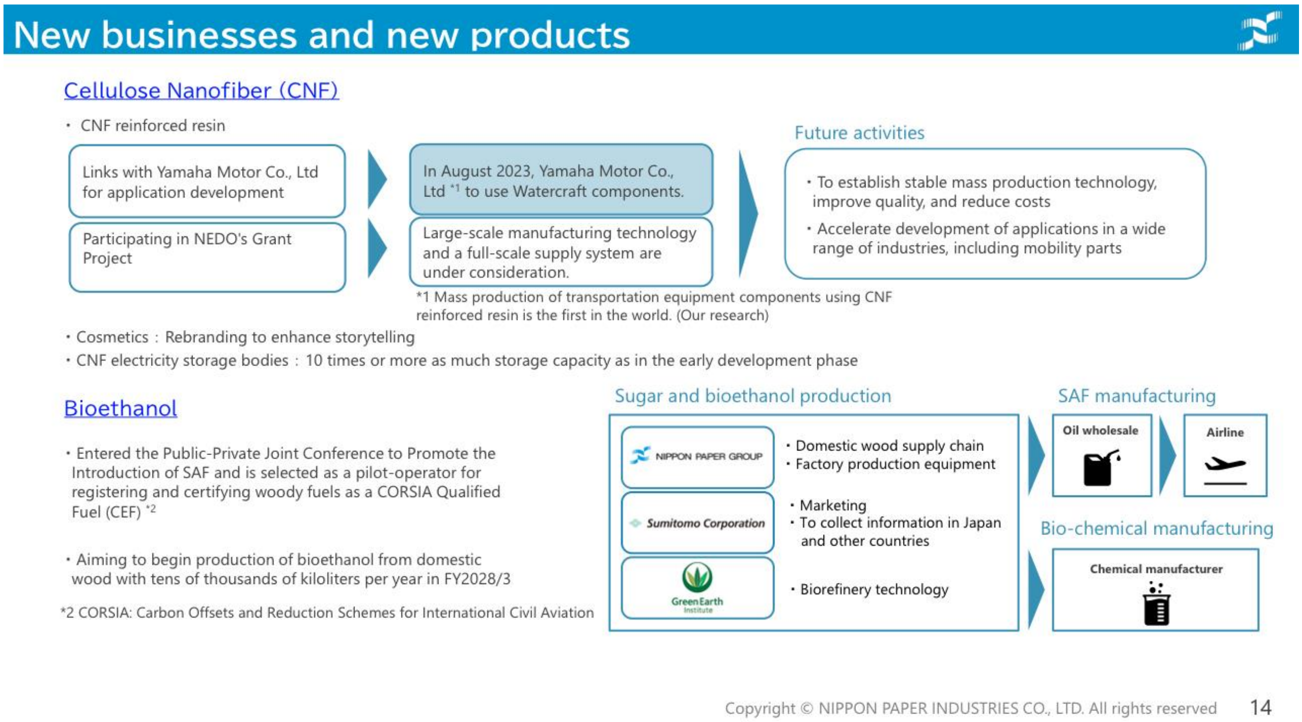
Next, I will explain the wood products and construction-related business.

The Group is working to increase earnings in the timber-related business by strengthening its domestic timber and fuel businesses centered on Nippon Paper Lumber. The volume of domestic logs handled is one of the highest in Japan at over 0.9 million ㎥, and we will continue to strengthen our business foundation with a view to achieving our goal of 1 million ㎥, in step with the trend toward revitalization of the forestry industry in Japan.

At the same time, we are also focusing on the fuel business, mainly from biomass and waste. Biomass fuel has increased procurement in Japan and overseas, and in addition to supplying fuel to the Group, the business of selling biomass fuel outside the Group is also generating earnings.

In August of this year, a new waste tire processing facility was built in the Fuji area, and by strengthening our supply capacity of waste fuel, we are contributing to the Group's coal reduction and fuel conversion. In addition, we are also promoting an overseas procurement system by establishing bases in Vietnam and Thailand, and we intend to further strengthen our procurement capabilities and profitability both in Japan and overseas.

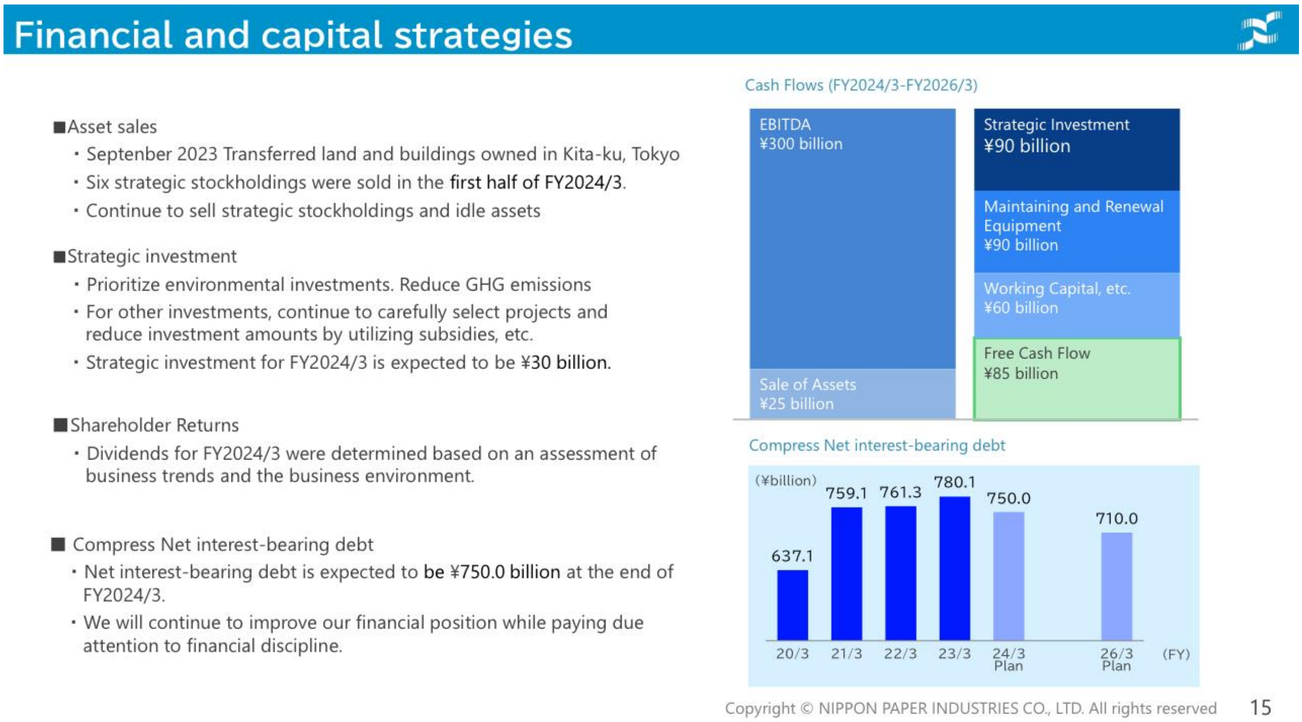


Next, I will explain about new businesses and new products. This time, we will introduce our current efforts regarding cellulose nanofibers and bioethanol.

With regard to cellulose nanofibers, the implementation of cellulose nanofibers as a material is gaining momentum, as evidenced by the adoption of CNF-reinforced resin developed jointly with Yamaha Motor for use in components for its watercrafts. In the future, we will promote the development of applications in a wide range of industrial fields, including mobility components, by establishing manufacturing technology for stable mass production, improving quality, and further reducing costs.

With regard to bioethanol, we are collaborating with Sumitomo Corporation and GEI to produce several tens of thousands of kiloliters of bioethanol derived from domestic timber per year at our plant, with the aim of supplying it as a feedstock for sustainable aviation fuel and SAF. In addition to advancing technical studies for mass production, we are working to obtain international certification for the use of domestic timber as a raw material.

Today's introduction is partial, but we are developing a wide range of new businesses and products by utilizing the resources of our existing businesses, and we will accelerate the development of these new businesses and new products.



Next, I would like to discuss our financial and capital strategies.

There are no changes to the cash flow plan for FY2024/3 through FY2026/3 from that presented in May. Regarding the sale of assets, as announced in August, we have decided to transfer the land and building we own in Oji, Kita-ku, Tokyo. In addition, we continued to sell policy stock holdings, completing the sale of six stocks in H1.

Our policy for strategic investments remains the same, with priority given to environmental investments that lead to reductions in GHG emissions, et cetera. For other investments, we will carefully select projects and carefully consider them while taking advantage of subsidies and other opportunities.

Net interest-bearing liabilities at the end of FY2024/3, also as mentioned earlier, are expected to be JPY750 billion. The medium-term business plan aims to reduce this figure to JPY710 billion by the end of FY2026/3, and the Company is currently making progress as planned.

Reduction in GHG emission

Target for reducing GHG emissions (FY2031/3) (Scope1＋2) **54%** (vs. FY2014/3)

■GHG Reduction Rate for FY2024/3-2031/3 **24%**

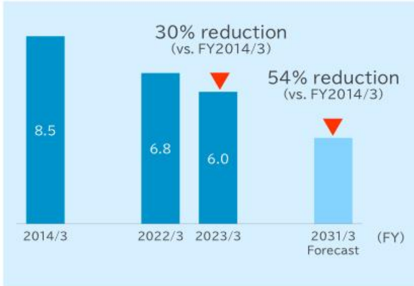
Main measures			
	NIPPON PAPER Industries	Improve productivity through Reorganization of production structure	6%
		Coal boiler stop with Reorganization of production structure	7%
		Maximization of fuel-conversion and black liquor utilization	5%
		Energy conservation measures	2%
	Affiliated companies	Overall initiatives	4%

■Set reduction targets under GX Pool Voluntary Emissions Trading System (GX-ETS)

Reduction target　Direct emissions in FY 2031/3 54% indirect emissions 5%
*Unit of participation: Nippon Paper Industries, base year: FY2014/3

* Emissions related to manufacturing excluding the energy business field

GHG Emissions Reduction, Forecast(Million tonnes-CO_2)



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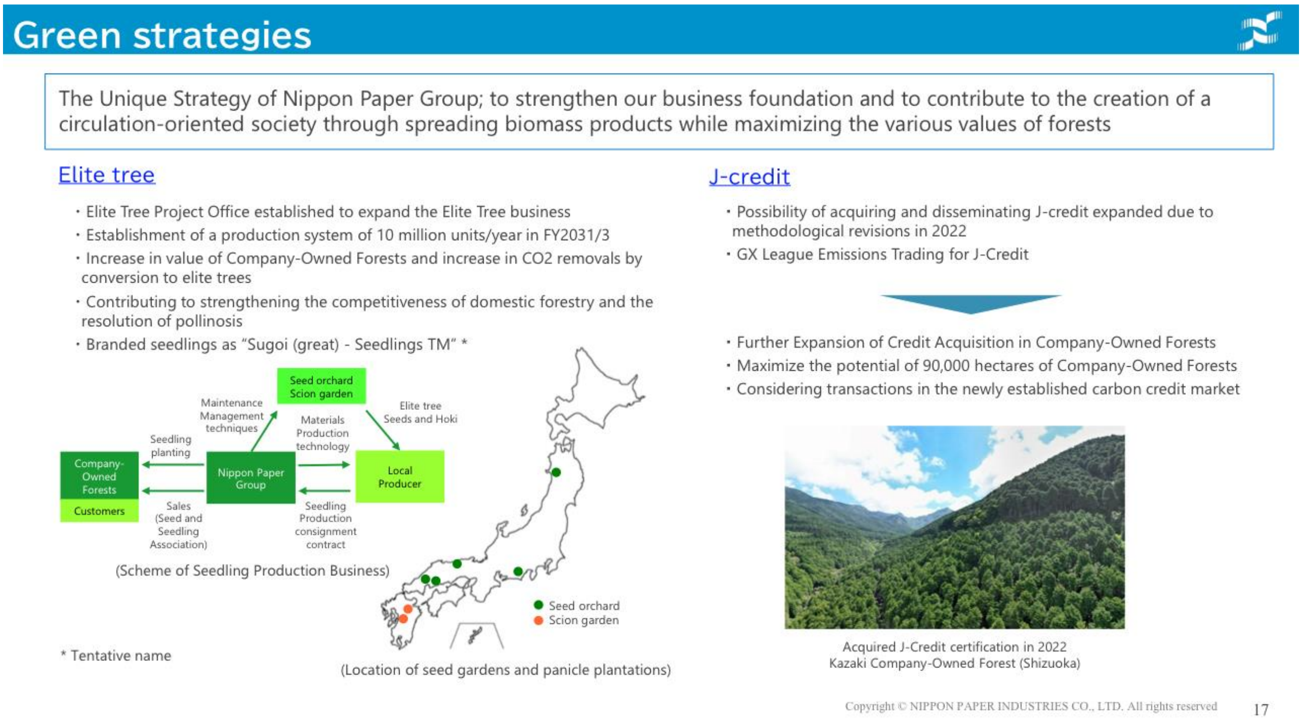
This page shows our efforts to reduce GHG emissions.

This year, we set a new target to reduce GHG emissions by 54% in FY2031/3 compared to FY2014/3. To achieve this goal, we will continue to systematically improve production efficiency by reorganizing our production system, shut down coal boilers, switch fuels, maximize the use of black liquor, and implement energy-saving measures.

In April of this year, we announced our participation in GX-ETS, a voluntary emissions trading system in the GX League, and we have now set a reduction target under this system. We will continue to monitor policy and institutional trends to ensure that GHG emissions are reduced, and will take appropriate measures to deal with the introduction of carbon pricing.

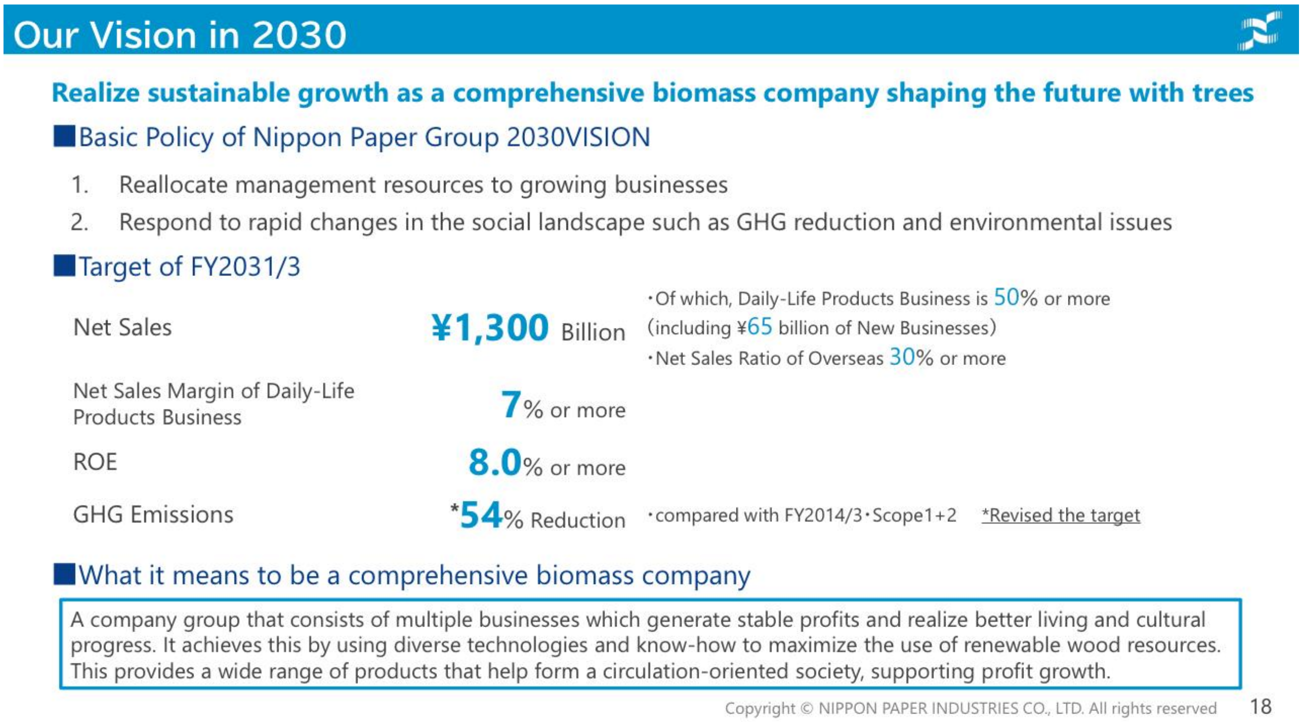


Next, I will explain our green strategy.

The Group is pursuing a green strategy of maximizing the value of forests and expanding its biomass products and services to contribute to the creation of a recycling-oriented society, while simultaneously strengthening its business base and increasing profits.

As part of this effort, we are focusing on expanding the use of Elite Tree. With regard to this matter, the Elite Tree Project Office was established in October, and the seedling production business promotion system was strengthened. With the goal of establishing a production system for 10 million plants per year by FY2031/3, we are proceeding with the establishment of seed and scion orchards. We hope to further expand the scale of our business in the future, as Elite Tree seed will contribute to strengthening the competitiveness of the domestic forestry industry and increasing CO_2 absorption, as well as to solving the pollinosis problem that is being promoted by the government.

In addition, with regard to J-Credit, the methodology was revised last year, expanding the possibilities of obtaining and disseminating credits. J-Credit is also covered by the GX League's emissions trading system, and we intend to expand the acquisition of J-Credit in company-owned forests and consider trading them on the carbon credit market to help increase the value of the forests we own.



Last but not least, this is the basic policy and goals of the Nippon Paper Group 2030VISION, which is the Group's long-term vision.

The external environment is changing rapidly, but we must always keep in mind the vision we set forth in our long-term vision, and respond to changes as we work together as a group to get back on track and achieve the goals of the medium-term business plan by the end of this fiscal year.

This concludes my explanation. Thank you very much.

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