

Financial Results for the Nine Months Ended December 31, 2021 Q&A Summary

- Q1)** What is the current situation regarding the price increase in printing paper and containerboard? If you can, please let me know.
- A1)** Regarding printing paper, we have been communicating with our customers in a very detailed manner, and we feel that they have a certain level of understanding of our situation. We are in the stage of negotiations while keeping a close eye on the price trends of corrugated box products.
- I think our customers are beginning to understand that the price has risen, not only coal but also various other materials.
- Q2)** I think that the daily-life products business has slipped from the original plan. As for Opal, you mentioned earlier that the volume is recovering, and that the price of exports is rising. In the future, including the next fiscal year, is there a possibility that the daily-life products business will recover a little more? I also wonder how the deviations from the projections will be improved in the future.
- A2)** As for the current situation of Opal, COVID-19 is still continuing to give us a hard time, but compared to last year, we feel that domestic demand in the region is generally returning. We have been able to generate synergies. We don't think the situation is negative at all. We saw a very poor result in Q4 of last year, so this is what the progress looks like now. However, we do not see this as a major deviation from the schedule. One of the risks is that marine transportation is in turmoil. In fact, marine transportation is a challenge for the NDP as well as Opal.
- Q3)** We subtract the progress made up to Q3, the net loss will be more than JPY1 billion in Q4. Are there any losses that you expect in Q4? Could you explain about the background of your plan to suffer a net loss?
- A3)** There is an assumption that as extraordinary losses, a loss on disposal will be more than JPY1 billion, which is a loss on withdrawal from Kushiro. In addition, as disaster losses, the effects of the earthquake are still expected to appear. These are expected to appear as extraordinary losses in Q4, so we have left the net income unchanged.
- Q4)** When the last price hike was being worked on around 2019, I think the price hike was passed smoothly after the announcement. Is the progress of the negotiations for the price increase smoother this time compared to the last time, or does it seem to be taking a little longer?
- A4)** One of the reasons for the price increase is the cost of GHG reduction for the future. We definitely spend quite a bit of time communicating with our customers to gain their understanding. However, it doesn't mean that they don't understand what we are doing.
- Q5)** I am focusing the price of wastepaper. I think that the impact of the decline in profits of wastepaper has been increasing from Q2 to Q3. Are you aware that the procurement price of wastepaper in Japan has been rising a little?

A5) The generation of wastepaper in general has been sluggish, so export prices have risen a little, and I think that has had some effect on the domestic market. However, the market conditions for exports have calmed down quite a bit, and we also discuss and negotiate with our suppliers to determine the quantity and prices. We understand that the situation continues to require caution, but we have been able to minimize the impact.

Q6) I think you have just seen the level of demand for printing paper for this year. Is there room for additional review of the production sites?

A6) Although the current demand trend for paper has improved compared to last year, it is still in a depressed state compared to the period before COVID-19, and I expect that the decline will continue in the future. I think we need to come up with measures that take this into account.

We will be shutting down N6 paper machine in Ishinomaki Mill in May of this year. I think that once we stop this, the balance of supply and demand will be fine for a while. We may have to think hard about stopping the machine, but another important thing is that as we are trying to expand our growth business or new business, we need to make the most of the infrastructure we have for the next project. I believe that we need to change our business structure while not wasting what we have.

Q7) The Q3 profits of the energy business were down. Were there any factors in Q3 such as a slight time lag in passing on cost increases to customers?

A7) The price of coal has risen first, so the price transfer will come later. I understand that the difference was especially noticeable in Q3.

Q8) According to the analysis of profit increase/decrease, the cost of wood chips has also increased. Is this due to the weakening of the yen, or is it still on an upward trend even without the effect of exchange rates?

A8) I believe that demand for wood chips will increase especially in China. The USD-denominated FOB price has already risen this fiscal year, which we have already factored it in, and we will have to keep a close eye on it from next fiscal year.

Q9) I would like to know how you evaluate the progress against your plan as Q3.

A9) There are no large deviations as of the end of Q3. We expect everything to go according to plan. As for Q4, there is some concern about disruptions in overseas logistics, but overall, we believe that we are within the scope of the plan

Q10) Is the stable operation by Q3 going according to your plan? Also, how much of the synergy effects of Opal have been realized as of Q3?

A10) As for the cost improvement, we have reached JPY2.3 billion in the cumulative total for Q3, and we have announced that we will achieve JPY3.5 billion for the full year. We understand that this is progressing like this.

Then, the initial plan for synergies of Opal is AUD18 million in 2021 from January to December, and AUD25 million in 2022. We have been working on this as planned in 2021.

Q11) The price of wastepaper has been rising. Does this mean that the price of wastepaper itself has increased, or that the price of wastepaper has increased because the cost of logistics and other items has risen? Could you tell me more about this?

A11) It will be affected by the retail price the most, although the logistics cost is also a factor.

End