

Financial Results for the Nine Months Ended December 31, 2022

Q&A Summary

- Q1 :** In Q3, Daily-Life Products Business ended a deficit because of domestic business. Could I ask about the current situation of the Daily-Life Products Business and the reasons of revisions of outlook of full fiscal year's operating income. Are these reasons that cost increasements or insufficient price revisions?
- A1 :** The revenue of household tissue was the most heavily impacted. The impact of FOREX exists, and the impact of raw material and fuel prices continues. We believe that once price revisions complete in the market, our business will be upward.
Paper-Pak and Chemical Business are similarly surging prices for raw material and fuel prices, and we think that both business will perform steady in terms of revenues, although they are below the previous years' level.
- Q2 :** About the overseas business in Daily-Life Products Business. I think the main reason for revised full fiscal year's earnings outlook to downward is Opal. I would like to conform it.
- A2 :** Opal has lagged the price revisions a bit behind against the inflation of raw material and fuel prices. Graphic paper is worse than package paper. Although price revisions have gradually progressed, even on a fiscal year basis, Opal is remained fairly severe.
- Q3 :** Net debt-equity ratio is considerably higher. At the end of December, retained earnings was just under ¥9 billion, but if lose more money in Q4, it would be a hit to the balance sheet. What are your thoughts on improving and reforming your balance sheet? From the next fiscal year onward, is the rebuilding balance sheet highest priority? And are you going to consider that capital expenditure restriction if it is needed?
- A3 :** It is also our assumption that the equity will be substantially impaired. We recognize that the net debt-equity ratio is in a very difficult situation, exceeding 2 times. From the next fiscal year onward, we will focus to repay loans while assuming that profit will recover.
Cash flow will be driven by both the reduction of investment and the sale of assets. Investment has already been carefully selected, and we will continue to pursue this approach in the next fiscal year and beyond.
- Q4 :** Energy prices, such as Coal prices, have begun to stabilize, and FOREX has also fluctuated with the appreciation of the yen, I think that the business environment for your company may improve toward the next fiscal year. You might purchase coal with current price range. How are you going to procure the raw material and fuel?
- A4 :** It is very difficult to expect the prices of raw material and fuel because of FOREX in next fiscal year. Considering future developments of Chinese economy and the

prospects of fuel prices for the next year's winter season, we expect that the price of raw material and fuel may not be extreme lower than current prices. FOREX is also unexpectable.

We have many different ways of coal procurement. There is a way to decide according to the benchmark price, and there is also a way to negotiate on the spot. While considering this combination from now on, I think there will be many changes in both of internal and external business environments, so I think we will have to take some measures to respond flexibly while having a basic approach.

- Q5 :** In FY2023/3 Forecast vs. FY2022/3 Variance Analysis, "Cost reductions, etc." as a factor behind the change in profits is expected to increase ¥6 billion on a year-on-year basis in Q4, but is it possible to positive earning of ¥2.3 billion by cost reduction in only Q4? The cumulative Q3 for logistics cost is expected to be negative at ¥700 million, but it is expected to be positive ¥100 million in full fiscal year. I would like you to tell me more about this point.
- A5 :** Export freight cost is settling down. Cost reduction contains a very large energy savings. We are doing total refinement of the cost reduction including the production sites. Indeed there is certainly some excess benefit from higher coal price, we have many ideas for cost reductions. I would like you to understand that this is the result of the collective efforts of Nippon Paper Group.
For coal reduction, we are working on it in the project cooperate with the head office and mills. In November last year, we reported the expectation of coal reduction, annual coal usage 1,270,000 tonnes in this fiscal year, but we are reducing coal usage more than the expectation.
- Q6 :** Many various environmental groups protests about "biodiversity" nowadays, are raw material suppliers for Opal heading risks of lawsuits from those environment groups?
- A6 :** Other suppliers for Opal are so-called suppliers of tree plantations. We are managing risks within Nippon Paper Group's procurement, and I think there are no problems with regard to sustainability, etc.
- Q7 :** About Energy Business, Operating income projection in Q4 is ¥1.7 billion, of which what is the contribution from Yufutsu energy center?
- A7 :** Yufutsu energy center has been in operation since February, and we believes it will contribute around ¥300 million to Operating income in Q4.