

Memo: Analysis Briefing for Nippon Light Metal Holdings Co., Ltd.

Progress Overview of FY2023-2025 Medium-term Management Plan (2023 Medium-term Plan)

Nippon Light Metal Group's Carbon Neutrality Strategy

• Date: 2~3 pm, November 14, 2023 (Tuesday)

• Briefers and respondents:

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Q1. To achieve the financial target of 30 billion yen in ordinary profit in the 2023 Medium-term Plan, what progress is being made as expected, and what are the shortfalls?

A1. Although the semiconductor-related market currently remains largely inactive in fiscal 2023, we expect a recovery in fiscal 2024 and higher sales of different types of products through fiscal 2025. In the thermal insulation panel business, we also expect that clean room demand for semiconductor-related factories built in Japan will continue to be strong for some time from the standpoint of economic security, and that a reasonable level of earnings will be generated during the 2023 Medium-term Plan period. On the other hand, overseas auto parts and related products are an issue in terms of the demand outlook for Japanese automakers in China, including gasoline and hybrid vehicles, as well as the stabilization of mass production at the new U.S. plant. The situation in China depends in part on customer conditions and local demand and policies. However, with regard to the issue of stabilizing mass production at the new U.S. plant, we expect to make a positive turn through our voluntary efforts. Moreover, we have awarded orders not only for EVs but also for suspension and brake parts and other auto-related products for vehicle models to be launched in fiscal 2025 and beyond, so products for auto parts, along with those for semiconductors that I mentioned earlier, will remain fundamental pillars for achieving the financial targets of the 2023 Medium-Term Plan. In addition, management reforms are the focus of the 2023 Medium-term Plan and measures to prevent the recurrence of inappropriate behavior to quality standards. We are now considering the future direction of the current organizational structure, and while achieving results in existing businesses, we intend to take a step further in terms of governance, including quality assurance.

We will steadily build up results not only for financial targets but also non-financial aspects step by step to enable us to move closer to our targets.

Q2. The volatility of earnings is significant. What measures are being taken to mitigate the impact of this volatility?

A2. Most recently, the aluminum sheet and extrusions segment has been the most volatile in terms of earnings. The sales price system for the aluminum sheet and extrusions is based on a formula for price fluctuations of additive metals in addition to the previous formula reflecting fluctuations in aluminum ingot prices, however in the past two to three years, the rise and fall of aluminum ingot market prices has affected earnings. In addition, while demand for semiconductor-related products is currently low, we expect that the timing of demand pickup in the next fiscal year (fiscal 2024) will have a significant impact on earnings.

Q3. The carbon neutrality strategy states that in the process of building a closed loop supply chain, owing to advanced sorting technology for market scrap, aluminum scrap will be utilized in extruded and rolled materials (aluminum sheet and extrusions), whereas it has not been used in the past. Will this change the revenue structure in the future?

A3. Since it is not possible to meet the quality standards required for extruded and rolled materials by using all aluminum scrap, our first step in recent years has been to increase the percentage of aluminum scrap based on aluminum primary alloy ingots. There may not be much difference in terms of profitability (compared with the previous use of 100% aluminum primary alloy ingot), but we believe that in the future, as customers seek added value from low-carbon products, they will choose low-carbon products even if sales prices are the same or higher. However, it is currently difficult to quantify the level of contribution to profit, including the speed of change.

Q4. Currently, the supply-demand situation for scrap is tight. What is your strategy for procuring scrap in the future?

A4. We are aware that scrap procurement will become more difficult in the future, affecting not just our company but also others, thus we are looking at procuring scrap not only from within Japan but also from overseas.

Q5. What are the NLM Group's strengths in procuring and recycling scrap?

A5. With the Group's secondary alloy ingot business (Nikkei MC Aluminum), I believe that the Group's secondary alloys and other technologies will enable us to respond

quickly to development and commercialization such as for recycling technology after scrap procurements.

Q6 What are the growth prospects for the truck body business (Nippon Fruehauf) in the fabricated products and others segment during the 2023 Medium-term Plan period?

A6. The current order backlog is high, partly due to the impact of the truck chassis supply shortage in fiscal 2022. In terms of profitability, the impact of sales price revisions is beginning to keep up with cost increases due to rising raw material and fuel prices. Going forward, given major changes in the logistics industry such as the shift to electric vehicles and electrification of trucks, as well as the “2024 Problem” currently drawing concern in Japan, in addition to the production and sale of new vehicles, we will also engage in the recycling of used truck bodies and the service and maintenance of truck bodies in use so that we can return to our original profit level (pre-fiscal 2020 level) during the 2023 Medium-term Plan period.

Q7 What are the cost burdens and specific items required to procure green aluminum and recycle it by using the advanced sorting technology outlined in the carbon neutrality strategy?

A7. Although we are not yet at the stage where we can quantify it or provide specifics, we are aware that expenses and costs will rise further than in the past. Regarding the necessary costs, our hope is that, after consulting with our customers, they will acknowledge the value of low-carbon and recycled use, and we can pass on cost increases to the sales price. If that proves difficult, we will then absorb the costs through technological improvements.

Q8 What are low-carbon demand and inquiries from customers?

A8. Several customers have asked us to use green aluminum and utilize aluminum scrap. Up to now, each operating company has responded individually, but we will compile such inquiries as the Group and then discuss the Group-wide approach with operating companies.

Q9 Are there any concrete efforts to utilize aluminum scrap for extruded and rolled materials (aluminum sheet and extrusions)?

A9 The key is how to develop technologies that meet the quality standards required by customers. At the same time, we consider it necessary to work to relax (or review) the quality standards in the aluminum industry as a whole, because there may be a review of the fact that customers do not actually demand such high quality standards

that are conventionally required (in the process of developing technologies to utilize aluminum scrap).

Q10 How much capital investment do you think will be required for carbon neutrality efforts to achieve a 30% reduction in CO₂ by fiscal 2030?

A10. The capital investment for CO₂ reduction alone is almost negligible, and the focus is primarily on reducing energy load by upgrading and repairing existing facilities. We expect that a 30% reduction in Scope 1 and 2 CO₂ emissions can be achieved through these efforts, and that there will not be a large monetary burden.

Q11. Please explain what the decarbonization strategy and roadmap to be announced in fiscal 2024 will entail.

A11. We intend to present the schedule and scale of technology development and capital investment required to reduce CO₂ emissions by 2030 and 2050. This briefing focused on our efforts through 2030, and we want to cover further efforts and the process through 2050 in the roadmap that we will announce in fiscal 2024.

Q12. Do you have plans to revise the shareholder return policy during the 2023 Medium-term Plan period?

A12. We do not see this as an issue, including the current PBR level, that could be postponed until the next medium-term management plan period. It is difficult to be definitive at this point, but we want to lay out our view on this and then present it as soon as possible. However, our first prerequisite is to steadily make efforts toward achieving the financial targets of the 2023 Medium-term Plan and the earnings forecast for fiscal 2023.