

IR Briefing for Nippon Light Metal Holdings Co., Ltd.

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

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• Briefers and Respondents:

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Q1. You expect net sales of new products to increase from fiscal 2024 through fiscal 2025. In which product areas do you see an increase? You stated that you aim to achieve more than 100 billion yen in net sales from new products in the fiscal 2030s. Is this based on the assumption that launching new products will lead to enhancing corporate value in terms of profit margins and ROIC?

A1. Auto parts-related products, especially for xEVs, is the area we are focusing on to grow through new products. We have some customer projects in the pipeline, and we believe that the ability to timely provide new value that meets their needs will be a key to growth. In addition, when we look at enhancing the corporate value, products for xEVs are highly profitable for customers who recognize the value we provide, in terms of bringing profitability to a higher level on a financial basis. On the non-financial side, the Group calls for global environmental protection as a materiality issue. As these products help reduce CO₂ emissions, we intend to actively address this issue.

Further, we believed that there was a limit to the conventional profit-seeking practices of an aluminum manufacturer, which means seeking profits based on a roll margin added to the price of the material. Now, we are making a major shift in the direction of increasing profitability by adding various values to materials through new material technologies, complex processing technologies, and other services. In the 2023 Medium-term Plan, automotive and semiconductor-related products have been identified as the product areas that will play a pivotal role in this direction.

Q2. What kind of discussions took place in the process of formulating the objective of ‘pursuing management reforms’?

A2. Under the current holding company system, which we transitioned to in 2012, we believe that we have been able to develop the strengths as the Group by expanding the growth of each of its subsidiaries and area of businesses. However, as we look into the future of the Group, if we were to base our operations on the existing little less than 80 subsidiaries and business divisions, we recognize that the view and scope regarding customers and business domains would become increasingly bounded and adhered to. In our view, a string of inappropriate actions regarding quality standards in our company foremost reflects the company’s functional deficiencies under such circumstances. Given these circumstances and issues, when we look at developing our overall strength as a Group to a higher level, it would be difficult to bring our Group, which has a wide range of businesses, together into a single organization out of nowhere, but by grouping our businesses into business groups of 50 to 100 billion yen, we will work to improve functional deficiencies and direct the resources of the Group in a direction that will enable us to demonstrate our comprehensive strengths. We will also work to enable subsidiaries and business divisions to broaden their bounded view and scope, so that they can reevaluate their businesses and products and map out their future. This means that, under this objective

of pursuing management reforms, we will move forward with various measures to create new businesses and products, while at the same time strengthening governance.

In addition, this objective of pursuing management reforms was not determined by a top-down approach, but rather by holding two different meetings. The first was an Executive Committee meeting (involving heads of subsidiaries and business divisions of the Group companies), and the second was a Site Manager meeting (led by department heads, plant managers, branch managers, sales office managers, and others as specified in the Group's measures to prevent reoccurrence). This two-level approach led to thorough discussions by communicating management's ideas to front-line employees, while also continuing to absorb their opinions at each meeting by management. As a result, we expect a relatively smooth transition to the new business groups and functional organizations.

Q3. In my understanding, the reason for the increase in the number of executive members from 17 to 19 (as opposed to the decrease in directors from 14 to 9) is that additional executive members now take in charge of a new area of focus due to such an expanded view and scope as a result of the grouping of businesses and functional organizations. Is this correct?

A3. That is basically correct. In addition to that, executive members' primary responsibility under the new structure is to build up earning potential and business value of each business group on the premise of maximizing the corporate value as the Group, with a view to leveraging their collective strengths as the Group, not from the perspective of a manager of a subsidiary, business division, or organization as before.

Q4. How do you view the current slowdown in the EV sales volume? Does the change in the composition of xEVs, which means a decrease in EVs (BEVs) alone and an increase in HVs (HEVs) and PHEVs, have any positive impact on the company?

A4. The general understanding is that the pace of progress in vehicle electrification has slowed down from the initial assumption (in 2023 last year when the 2023 Medium-term Plan was announced). It is difficult to predict either how long the demand for HVs (HEVs) and PHEVs will last as a transitional phase to EVs (BEVs), or how quickly the transition to EVs (BEVs) will occur. The usage of cooling and other components for power control units installed in xEVs may increase or decrease depending on the pace of electrification; nevertheless, this is certainly an area that will see significant growth. We believe that such products will lead to profitability, reflecting firm orders for products to be launched in the next two to three years as products that can demonstrate the significance and strength of Nikkeikin ALMO, which handles these products.

On the other hand, although a drop in the number of engine vehicles would have the effect of having fewer parts and components using secondary alloys, we anticipate that demand for secondary alloys will rather grow by replacing demand for these auto parts and components with both increased demand for secondary alloys for body structural materials (due to the need for lightweight vehicles) and the needs for recycled ingots in terms of carbon neutrality. Despite changes depending on the pace of progress in electrification, there will be no change in that such products lead to profitability.

In addition, we believe that no matter how quickly the composition of xEVs changes, vehicles will certainly trend in the direction of electrification. This means that vehicles will increasingly use more electricity, and the trends toward adopting lightweight parts and components will never be turned back. To this end, our customer automakers are desperately seeking to replace essential built-in parts with those of the most lightweight possible. At this point, we are not in a position to go into details about new businesses and products in this regard, but Nikkeikin ALMO and our other operating companies and business divisions are receiving inquiries from customers; therefore, we do not believe this will be a headwind for the Nikkeikin Group.

Q5. What are the quantitative effects of grouping businesses and functional organizations? And when will they take effect?

A5. We wish we could explain it to you, but at this point we are not at the stage where we can give you a quantitative statement. However, what is most important to us is that by pursuing management reforms, we will make a significant change in the capital efficiency for each business group. This is a big difference from the past approach. Today, we mentioned that in order to increase corporate value, we will increase sales and profitability in financial terms. In addition to that, to answer as to how we can

improve capital efficiency and earnings rates, we would like to ask for your patience. We have adopted ROCE as an indicator for the target value, and set ROCE of more than 10% to achieve in fiscal 2025 as a financial target in the 2023 Medium-term Plan. With this as a minimum target, we will work to realize quantitative effects.

Q6. How will changes in the composition of the Board of Directors (reducing the number of directors and increasing the proportion of outside directors), as described in the slides titled “Pursuing management reforms,” lead to a change in discussions at Board of Directors’ meetings? How will these changes, in turn, lead to an increase in corporate value?

A6. The number of proposals submitted to the Board is currently relatively high. Directors somehow tend to spend a fairly long time discussing specific projects during Board of Directors’ meetings, although they actively discuss each project. As we pursue management reforms, we attach great importance to how we optimize the allocation of the Group’s resources, in terms of grouping businesses and functional organizations and reinforcing the Board of Directors’ supervisory function. Reinforcing the Board’s supervisory function will lead to discussions on the ideal direction of the Group from an even broader perspective, reflecting the insights of outside directors. This is the primary objective of the reforms, starting with the change in the composition of the Board of Directors.

At Board of Directors’ meetings under the new structure, we intend to spend time discussing how to make decisions and what direction to take at the big-picture level.

Q7. Do you have any plans beyond this grouping of businesses and functional organizations (e.g., whether to consolidate or downsize subsidiaries, among other measures to be considered)?

A7. At present, we have not set an ultimate target for the number of subsidiaries. However, it is desirable to make human resources (human capital) more fluid with a view to allocate the resources of the Group. In order to develop the Group into a more integrated business group, we consider it inevitable to move into the direction of reducing the number of business divisions.

Our next step is to work out the details of how to make specific changes, starting from this grouping of businesses and functional organizations.

Q8. Which areas of semiconductor-related products do you expect to grow?

A8. The areas of growth we see are primarily twofold; one is clean room thermal insulation panels for semiconductor-related factories, and the other is thick sheets, parts, and low soda alumina for semiconductor manufacturing equipment. In our view, these areas will grow in volume to a certain level as we base on the economic security of domestic demand. We will make sure not to miss any opportunities.

Q9. Will revising capital investments during the 2023 Medium-term Plan period limit the growth strategy?

A9. Given that the capital investment of 102.5 billion yen after this revision is higher than the 97.2 billion yen in the previous 2019 Medium-term Plan period, we do not see a significant change in the growth rate during the 2023 Medium-term Plan period at this stage.

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