

Nippon Light Metal Holdings Co., Ltd.

Q&A Summary of IR Briefing

- Progress Overview of Pursuing Management Reforms
- Nippon Light Metal Group's Roadmap to Achieving 2030 Carbon Neutrality Targets
- Date: 2:00–3:00 pm; November 21, 2024 (Thursday)
- Briefers and respondents:

Ichiro Okamoto, President and CEO

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Kazuyoshi Sugiyama, Officer and Head of Green Growth Strategy Office

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Q1. What measures are you taking in light of pursuing management reforms (reinforcement of the Board of Directors' supervisory function and the grouping of businesses and functional organizations)? When will the management reforms be completed?

A1. We see the need to reap the results of these efforts as early as possible. We intend to present the KPIs for each business group early in fiscal 2025, indicating the level of margins that we are targeting for a certain period of time. The main theme of this management reform is the reallocation of resources as the Group, which is essential as we continue to seek internal efficiencies while constantly increasing margins.

Q2. Regarding return on capital employed (ROCE) for each business group, what issues are you currently aware of?

A2. The profitability required for each business group varies depending on whether the business is upstream, midstream, or downstream. Our primary priority in this management reform is to increase margins in terms of both the absolute amount of profit and profit margin. This is the most important objective in maximizing the Group's profit and aiming for a profit level of 30 billion yen.

On this premise, we will advance the formulation of business group-specific KPIs and strategies after carefully identifying and aligning the issues in each business group, i.e., how to boost margins to the level required by each business group and then how to increase ROCE, including making the right decisions on the investments necessary for increased ROCE.

Q3. You mentioned that the financial and non-financial strategies and KPIs grounded in management reforms will be presented in May 2025. Will this be a new medium-term plan being drafted without going over a review of the 2023 Medium-term Plan (three-year medium-term management plan for fiscal years 2023 to 2025, released in May 2023)?

- A3. We do not intend to review the 2023 Medium-term Plan on a rolling basis. While this plan does not cover efforts to pursue management reforms (reinforcement of the Board of Directors' supervisory function and the grouping of businesses and functional organizations), at the conclusion of the three-year period, we will go through a review of the 2023 Medium-Term Plan. Our objective in grouping businesses and functional organizations is not to boost profits in the short term for fiscal 2025, nor to formulate a new medium-term plan. At this point, we are not at a point where we can say definitively, but we intend to present a vision of what each business group will be aiming for in X years.
- Q4. The financial target of the 2023 Medium-Term Plan (30 billion yen ordinary profit for fiscal 2025) is set on the premise of spinning off the aluminum foil business (Toyo Aluminium), while the full-year performance forecast for fiscal 2024 (20 billion yen ordinary profit) includes the profit from the aluminum foil business (about 5 billion yen). How do you see the profit gap between these two aspects?
- A4. There are two main factors behind the gap. The first is the automotive parts business group (Nikkeikin Aluminum for Mobility). In addition to the recent struggles in overseas business, the growth rate of EVs (BEVs) differs from the assumptions of the 2023 Medium-Term Plan, with delays in customer (automaker) launch plans, which is considered to be a major factor. The second is the slump in semiconductor-related demand. Although the worst phase has passed and the market is returning to a growth trajectory, the growth rate of the semiconductor-related market is lagging behind that assumed in the 2023 Medium-term Plan.
- Q5. It has been a little less than six months since the transition to the new structure (the Board of Director and the grouping of businesses and functional organizations) through efforts to pursue management reforms. Is there any positive change or example as a result of the transition to the new structure?
- A5. At this point, there are no concrete changes about which we can talk. In fact, having the 77 group companies grouped into 8 business groups has allowed employees of the group companies to interact with each other who had not previously communicated before. On the quality side, for example, they have begun to understand other group companies and business divisions. Also, in terms of product development and marketing, there is a growing awareness of how to approach their own business products in relation to those of other group companies and business divisions. Such interactions are extremely important and are undoubtedly increasing. Hopefully, the seeds of new value will emerge from these opportunities.
- Q6. What is your focus in studying and formulating strategies and KPIs to enhance the revenue base and ROCE, as well as in an effort to increase Price Book-value Ratios?

- A6. It is certainly important to make it easy for external parties to understand, but it is also essential to ensure that KPIs and measures are internally linked, resulting in outcomes. In terms of increasing PBR, while the share price is not something that we can control alone, we do not consider the current margin to be at a sufficient level. We believe that unless we raise margins, there will be no future for our company in five or 10 years. Higher margins and better ROCE are the key to a more favorable valuation by the market, which will lead to an increase in PBR.
- Q7. You mentioned “aiming for sales of over 100 billion yen from new products and new businesses in the fiscal 2030s.” Will there be a quantitative update on this progress?
- A7. ARCH, which we mentioned when briefing the Marketing & Incubation Administration Office, is one of our initiatives. Similarly, we mentioned the Marketing & Incubation Administration Office as one of our initiatives to achieve sales of over 100 billion yen from new products and new businesses in the fiscal 2030s.
- In any case, our primary focus is not on the 100 billion yen figure, but on how many moves we can make. Without making moves, there will be no failure and no reflection, which will not lead to the next stage of growth. To date, our financial structure kept us from being able to fully make such moves, but we are determined to use what moves we are making in the future, resulting in a higher proportion of sales from new products and new businesses to total sales.
- Q8. Are you saying that your efforts in ARCH (incubation promotion: creation of new business ideas) are also important in non-financial aspects?
- A8. That is correct. The Group’s approach to carbon neutrality is more of an opportunity than a risk. Given the characteristics of aluminum as a material, how we incorporate carbon neutrality as an opportunity into its supply chain will be extremely important.
- Q9. Will the grouping of businesses and functional organizations bring about a change in existing cross-organizational activities?
- A9. The activities of creating new products through cross-organizational activities fundamentally will not change much. Some activities will be transitioned to business groups. The function and role of the newly established Marketing & Incubation Administration Office are to transform the cross-organizational activities that have spanned over 20 years into more progressive initiatives.
- Q10. In your carbon-neutral approach, there will be an impact of cost increase due to the sourcing and use of recycled ingots and green aluminum. Has a consensus been reached on how to pass on this cost increase to the sales price?
- A10. At this point, sensitivity to the situation varies by customer, market, and industry. An example

is a request from an automaker for materials to be used in products that will be launched in the second half of the 2020s. However, there are still issues as to whether our intentions align with our customers' views on the value of green aluminum and recycled ingots. Regardless of this, there is no change in the fact that we need to properly work to strengthen green aluminum and recycled ingots, and recycling efforts in the Group's supply chain.

Q11. What are your thoughts on branding low-carbon aluminum?

A11. There is nothing specific we can talk about at this time.

(It might be a personal view, but) I see reducing the total amount of CO₂ emissions as a major challenge for the Group. At the same time, I think we should carefully consider whether the mass balance approach and the branding (of low-carbon aluminum) are commensurate with the Group's efforts to reduce CO₂ emissions and whether they essentially contribute to net-zero CO₂ emissions.

Q12. Will you be joining the Aluminium Stewardship Initiative (ASI) and acquiring the certification in the future?

A12. At this time, we are not working on a specific activity to join or be certified by ASI, but ASI certification is a requirement. We understand that it must be pushed forward in the time frame through fiscal 2030.

Q13. What is the scale of carbon neutral-related development costs and capital expenditures? (by fiscal 2030)

A13. Specifically, the capital investment for decarbonization will be 430 million yen, including the introduction of regenerative burners and renewable energy. In addition, if we include capital investments that incidentally result in decarbonization effects during equipment upgrades or improvements, it will be around 4 to 5 billion yen.

Q14. Are you considering introducing a new aluminum melting furnace in the future?

A14. As it becomes necessary to increase the collection of aluminum scrap in the future, we see a need to consider the melting capacity that meets the collection volume.

Q15. What are your thoughts on sourcing aluminum scrap from overseas?

Q15. The key to our future success lies in building the Group's supply chain that encompasses the sourcing of aluminum scrap and green aluminum on a global scale, beyond the domestic Japanese market. In Japan alone, the export of aluminum products, as typified by the automobile sector, results in a low domestic generation of aluminum scrap. On a global scale, in fact, there are regions where there is a surplus and accumulation of aluminum scrap. Given that, we see it

as extremely important to determine how we can put together a supply chain for the Group.

Q16. What about the sourcing of recycled billets?

A16. There is nothing that we can talk about at this time.

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