

# Contributing to a better world and healthier environment by helping build a circular economy and broadening applications for aluminum



**Miyuki Ishihara**

Representative Director & President

## Record-high sales and profits posted on the back of growing global demand

In fiscal 2021, ended March 31, 2022, the UACJ Group leveraged its three-country supply network to capture growing global demand for flat-rolled aluminum products, laying a path for medium- to long-term growth in the first fiscal year of its current mid-term management plan, ending in fiscal 2023. Demand for flat-rolled aluminum for can stock, especially, continued to rise as the shift away from plastic gained momentum amid growing environmental awareness. To meet robust demand for aluminum can stock in the North American market, Tri-Arrows Aluminum continued to operate at full-capacity, but with orders already filled through to 2025, the Group's manufacturing plants in Japan and Thailand are supplying products to keep up with demand growth. Meanwhile, backed by solid demand for aluminum automotive parts and structural materials as automakers shift to electric vehicles (EVs), the Group increased its sales of these products to emerging EV manufacturers in the United States during the fiscal year.

Against this backdrop, UACJ has been generating returns on the large investments it made in the United States and Thailand to expand production capacity, thereby boosting its earnings power. The Company has also enhanced its ability to respond to changes in the operating environment by implementing structural reforms, such as rationalizing production in Japan and improving

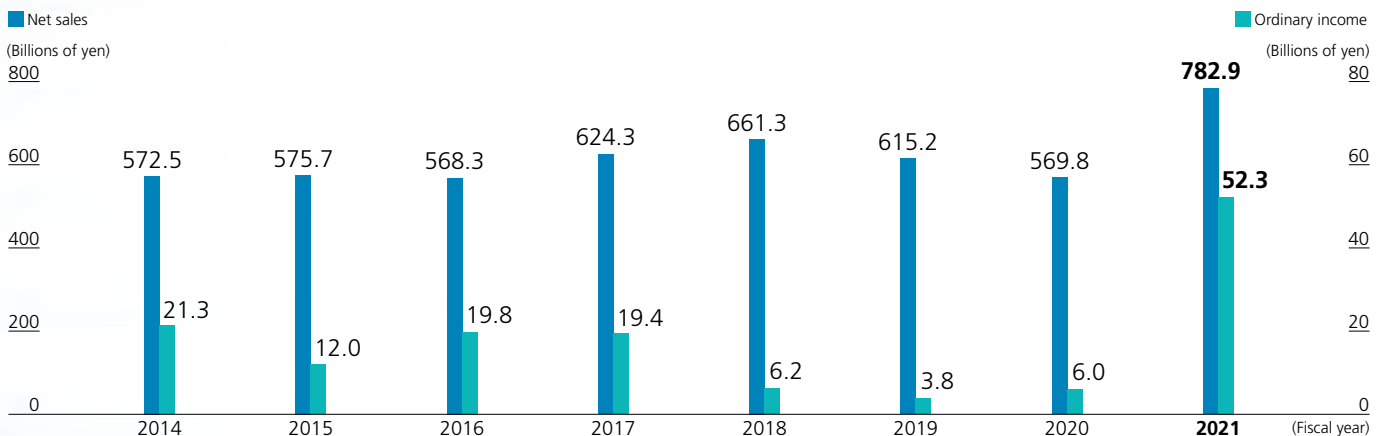
management systems. As a result of these factors along with various headwinds, including higher market prices of aluminum, the Company posted the highest consolidated sales and profits since its establishment through merger in 2013. Net sales came in at ¥782.9 billion, operating income totaled ¥59.5 billion, ordinary income amounted to ¥52.3 billion, and net income attributable to owners of the parent totaled ¥32.1 billion. We also expect to achieve our targets in fiscal 2022.

## Uniting the Group's members under a common purpose to complete structural reforms

UACJ made large investments from the time it was established through to 2019, and entered the final phase of those investments after I was appointed as president in June 2018. Around that time, China's economy slowed down dramatically following its trade war with the United States, and the global aluminum market rapidly deteriorated. The Group was also affected by a number of internal issues, such as UACJ (Thailand)'s prolonged unprofitability, which forced us to make major changes to our growth strategies. To overcome these difficulties, we launched drastic structural reforms throughout the entire Group in October 2019.

In order to execute those reforms, however, I believed it was necessary to unite the Group's diverse members under a common purpose, because many employees from around the world had newly joined after UACJ acquired

### Consolidated net sales and ordinary income



subsidiaries and built production facilities in the United States and Thailand. Therefore, I initiated a review of the UACJ's fundamental purpose, and started a project to redefine the Group's management principles. In February 2020, we announced that our purpose was to "contribute to society by using raw materials to manufacture products that enhance prosperity and sustainability," and created a set of guidelines for all employees to follow called The UACJ Way.

Unfortunately, COVID-19 began spreading around the world in early 2020, resulting in serious restrictions on international movement and interaction by employees. Nevertheless, we quickly deployed tools to facilitate communication between members of the Group's companies worldwide, such as holding online meetings.

For a very long time, I have believed that hard work leads to success, and have always told my colleagues that results will come if we just keep at it and persevere to the end. Since becoming president, I have used the example of team sports with employees to encourage them to work towards the same goal as a team, play their respective positions and roles, and battle on until the final whistle. When pushing through with the structural reforms, in video messages and meetings with all group companies, I have been emphasizing the importance of having all members of the Group independently play active roles in accordance with our new purpose and guidelines. This has gradually led to a shared understanding of the purpose and guidelines as well as

greater cohesiveness among our members, setting a new stage for the Group's corporate culture.

I have no doubt that the achievement of record-high earnings in fiscal 2021 despite a challenging operating environment was the outcome of steadfast efforts by all of the Group's members to carry out the reforms with a common purpose. Therefore, this success should motivate employees individually and boost morale on an organizational level. We have continued to face difficulties over the past nine years since UACJ's establishment, especially since 2018, but those difficulties were overcome through the collective efforts of all employees. I believe this indicates how the Group has evolved into one big team, and I am confident that it will continue making progress as an even stronger team in the future.

### **Building a responsible supply network to meet the demands of the times**

Amid increasingly serious ocean pollution and problems caused by climate change, the shift away from plastic and the widespread adoption of EVs are irreversible trends that will accelerate in the future. Therefore, demand for flat-rolled aluminum products, which are useful for a variety of environmental solutions, should continue to grow over the medium and long terms. Aluminum product manufacturers, however, must improve their performance with respect to environmental, social and governance (ESG) criteria since ESG investing has attracted more and more attention in recent years.

Aiming to raise the Group's performance in this way, UACJ joined the Aluminium Stewardship Initiative (ASI) in July 2020, becoming Japan's first flat-rolled aluminum manufacturer to gain membership in this international organization, which certifies companies for responsible aluminum production, procurement, and management. Fukui Works in Japan and Rayong Works in Thailand both acquired ASI certification in March 2022, and manufacturing plants operated by Tri-Arrows Aluminum in the United States expect to be certified in the fiscal year underway. Having ASI certification has already become a condition for concluding contracts with beverage manufacturers and global automakers, which place high



importance on environmental responsibility. Accordingly, acquiring ASI certification will be essential for increasing business opportunities in the future, so we plan to steadily increase the number of certified manufacturing plants.

The Group is maximizing the potential of its three-country supply network to fulfill its important responsibility as a global manufacturer to meet strong demand for aluminum products around the world. In fiscal 2021, UACJ (Thailand) reached full capacity—over 320 thousand tons annually—of flat-rolled aluminum for can stock, demand for which continues to rise in Asia and North America, especially. It is now operating the same type of production lines as our lines in Japan, which I was involved in designing as an engineer. Tri-Arrows Aluminum boosted production capacity by expanding the aluminum recycling line it installed in 2020, allowing it to increase output while also reducing CO<sub>2</sub> emissions and costs. It is currently planning to install new facilities to keep up with robust demand. The balance of supply and demand in the North American market will continue to be tight, so the Group's manufacturing plants in Japan, the U.S., and Thailand will further coordinate output to supply can stock there in the years ahead. In the Group's automotive parts business, we boosted production capacity through investment in facilities operated by UACJ Automotive

Whitehall Industries. We look forward to increasing capacity further when a new plant in Arizona starts operating in the future. We are focusing on expanding the automotive parts business across the Group's international operations by leveraging its competitive advantages, particularly its ability to apply technologies to promptly meet customers' requirements.

Looking ahead, we intend to capture rising demand for aluminum products by effectively coordinating the Group's supply of can stock from Japan, the U.S., and Thailand, and by taking advantage of our solid customer base of major Japanese and American automakers to supply aluminum parts under a business model of local production for local consumption.

### Accelerating expansion into new business sectors over the next decade

To help make the world more sustainable, we believe aluminum should be used in a wider range of industries. Therefore, in our long-term roadmap, UACJ Vision 2030, we specified three new sectors to focus on: mobility, lifestyles and healthcare, and environment and energy. Although just over a year has passed since we created this vision, new business seeds have already begun to sprout.

## The UACJ Group's operating environment and direction

### Main trends and challenges in fiscal 2021

#### Growth in global demand for flat-rolled products

1. Rising global demand for can stock amid growing environmental awareness
2. Rising demand for aluminum auto parts, air conditioning components, and thick plates

#### Rising prices and supply bottlenecks

1. Sudden fluctuations of aluminum market prices
2. Steeply rising energy prices
3. Soaring prices of alloy additives
4. Rising logistics costs
5. Reduced automobile production due to semiconductor shortages

### The UACJ Group's key initiatives

#### Made progress in completing structural reforms and positioning the Group for future growth and the success of UACJ Vision 2030

- ✓ Promptly responded to changes in the operating environment
- ✓ Implemented additional measures to complete structural reforms
- ✓ Leveraged the three-country supply network to increase can stock sales
- ✓ Moved forward with plans to expand production capacity in the U.S.
- ✓ Improved UACJ Automotive Whitehall's production and sales systems
- ✓ Implemented sustainability management
- ✓ Took steps to create new businesses
- ✓ Strengthened the financial structure

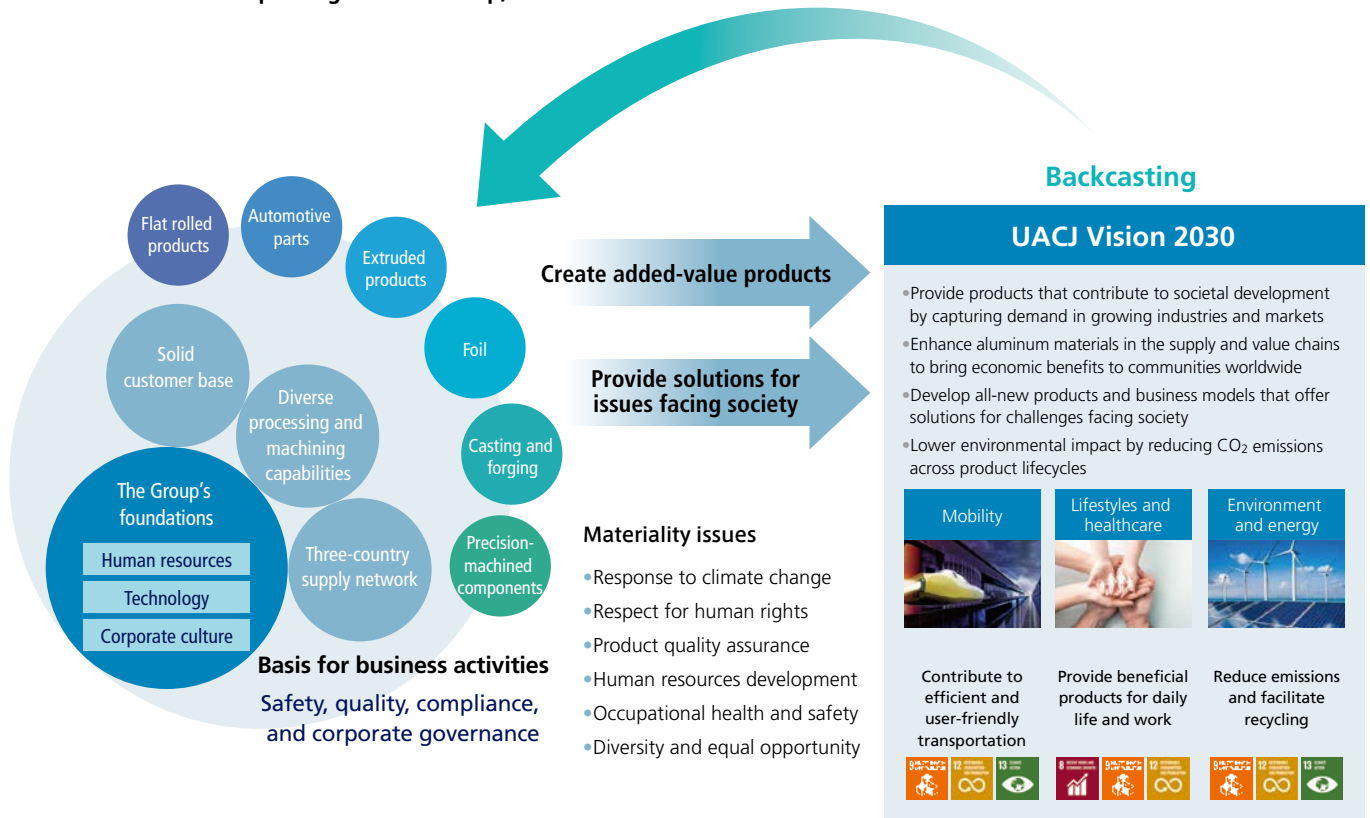
For example, in the mobility sector, UACJ's aluminum automotive parts are now being used for EVs at the verification stage of a smart city being built by a major automaker in Japan. In the environment and energy sector, UACJ has been participating in a project to manufacture and supply thick plates for tanks used in ships that can transport hydrogen and ammonia, which are expected to be used as alternatives to fossil fuels. In the lifestyles and healthcare sector, the Company has developed lightweight and highly effective flood barriers made from extruded aluminum materials, and is verifying regional emergency water supply operations using aluminum bottles that can store drinking water for long periods of time. These two new businesses can contribute to community disaster preparedness, and were developed as business plans based on ideas submitted by employees through the Company's in-house venture system. I hope even more employees will be "curious and challenging," one of the values of our management philosophy, and continue creating such

forward-looking businesses to open up new possibilities for aluminum in the future.

**Building a sustainable world with aluminum at the heart of the circular economy**

Aluminum will be an essential metal for the world's sustainability in the future. Therefore, I believe aluminum product suppliers must also be sustainable. Recognizing sustainability as fundamental for management from that standpoint, we designated six materiality issues to address on a priority basis, which are related to four of the UN's Sustainable Development Goals, and created the UACJ Group Sustainability Policy, entitled "Passing down a better world over the next century." In line with this policy, UACJ became a signatory to the UN Global Compact, the world's largest corporate sustainability initiative, in April 2021. We also positioned sustainability as the most important issue of our UACJ Vision 2030 and current

**Framework of the Group's long-term roadmap, UACJ Vision 2030**



mid-term management plan. Furthermore, we specified key performance indicators and carried out various activities related to each of the six materiality issues.

For example, with respect to the materiality issue, occupational health and safety, we revised our targets for the number and seriousness of workplace accidents. We also issued our Health First Management Declaration, and are promoting employee health management while raising awareness of health issues among employees and their family members. For our materiality issue, respect for human rights, we carried out human rights due diligence at two of the Group's main manufacturing plants, and created the UACJ Group Human Rights Policy. As part of our response to climate change, we declared our intention to become carbon neutral by 2050, and to achieve that, set the goal of minimizing CO<sub>2</sub> emissions from the Group and its entire supply chain. As a supporter of the Task Force on Climate-related Financial Disclosures (TCFD), UACJ joined the TCFD Consortium in 2021, and conducted an analysis and assessment of climate-related risks and opportunities with support from Japan's Ministry of Environment. Projecting a major shift to renewable energy and material recycling based on a scenario of a 1.5° Celsius rise in temperature, the analysis concluded that the Group can contribute to building a low-carbon economy and recycling-based society by utilizing the beneficial properties of aluminum.

I believe the results of the analysis show that the biggest contribution the UACJ Group can make to pass down a better world over the next century is to build a circular economy with aluminum products. As many people know today, aluminum is very easy to recycle and used aluminum products can be recycled into the same kinds of products, a process called closed-loop recycling. Moreover, producing aluminum by recycling scrap emits 97% less CO<sub>2</sub> than by producing virgin aluminum from raw materials in the smelting process. Accordingly, the more aluminum is recycled and used across a wider range of applications, the more CO<sub>2</sub> emissions will be reduced over product life cycles. I believe a system should be established to reflect these reduced emissions in the value of aluminum. The UACJ Group can substantially contribute to these reductions as a world-leading supplier of

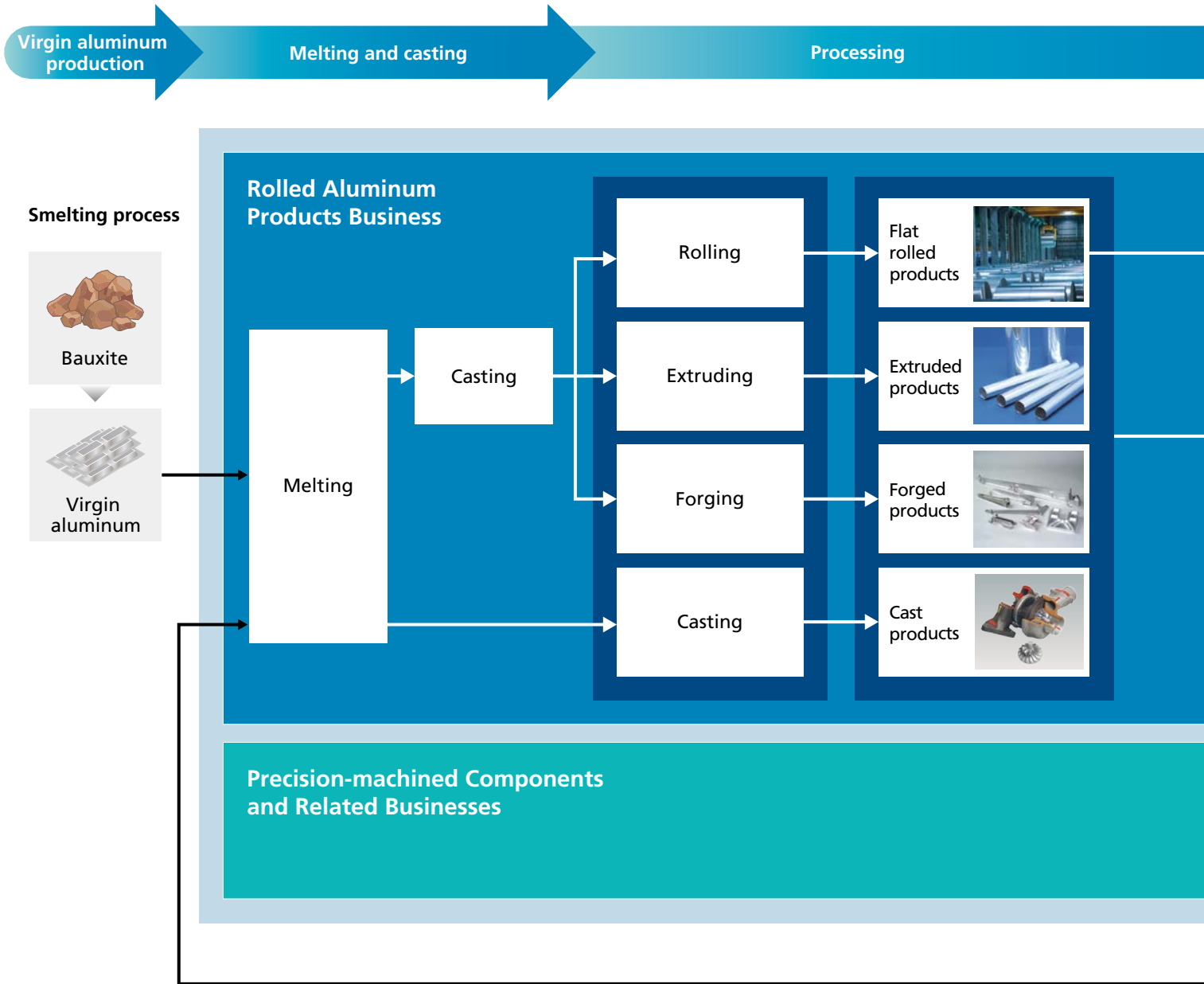


aluminum products totaling over 1.3 million tons annually. Therefore, all of us in the Group feel a strong commitment to building such a circular economy.

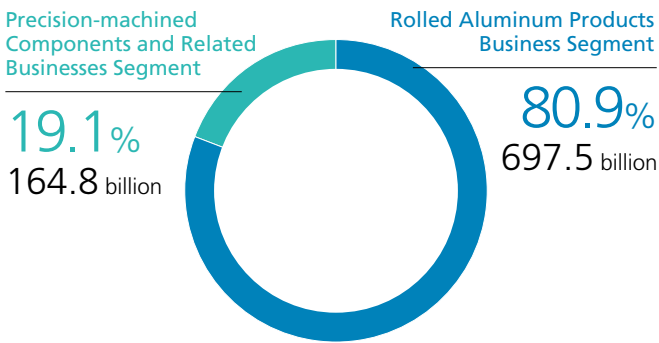
To facilitate closed-loop recycling of a wide range of aluminum products in addition to beverage cans, UACJ is involved in a project back by Japan's New Energy and Industrial Technology Development Organization to conduct technical research and development on the production of high-grade wrought aluminum from low-grade scrap. We also plan to set up recycling systems for aluminum automotive parts and other products throughout the Group's supply chain.

Aluminum is a very useful and beneficial metal. By making the most of its recyclability, light weight, and high thermal conductivity, we can reduce CO<sub>2</sub> emissions across a broad range of industries. From my perspective as an engineer and a corporate executive, aluminum should be used in many more applications. UACJ is built on a history spanning over a century, but for it to thrive in the next 100 years, we must explore new ways of using aluminum and take the lead in realizing a recycling-based society by putting aluminum at the heart of the circular economy. With this in mind, I recognize that I have an important role and responsibility as president to keep the Group on track towards achieving its goals and to effectively allocate operational resources, including necessary personnel, technologies, and capital. The entire UACJ Group is committed to increasing the value of its aluminum products businesses and passing down a better world over the next century. As we pursue these endeavors, we ask for the continued support of the Group's stakeholders.

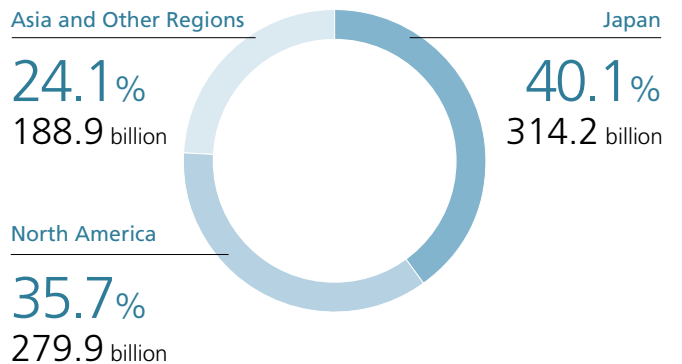
# Business Models



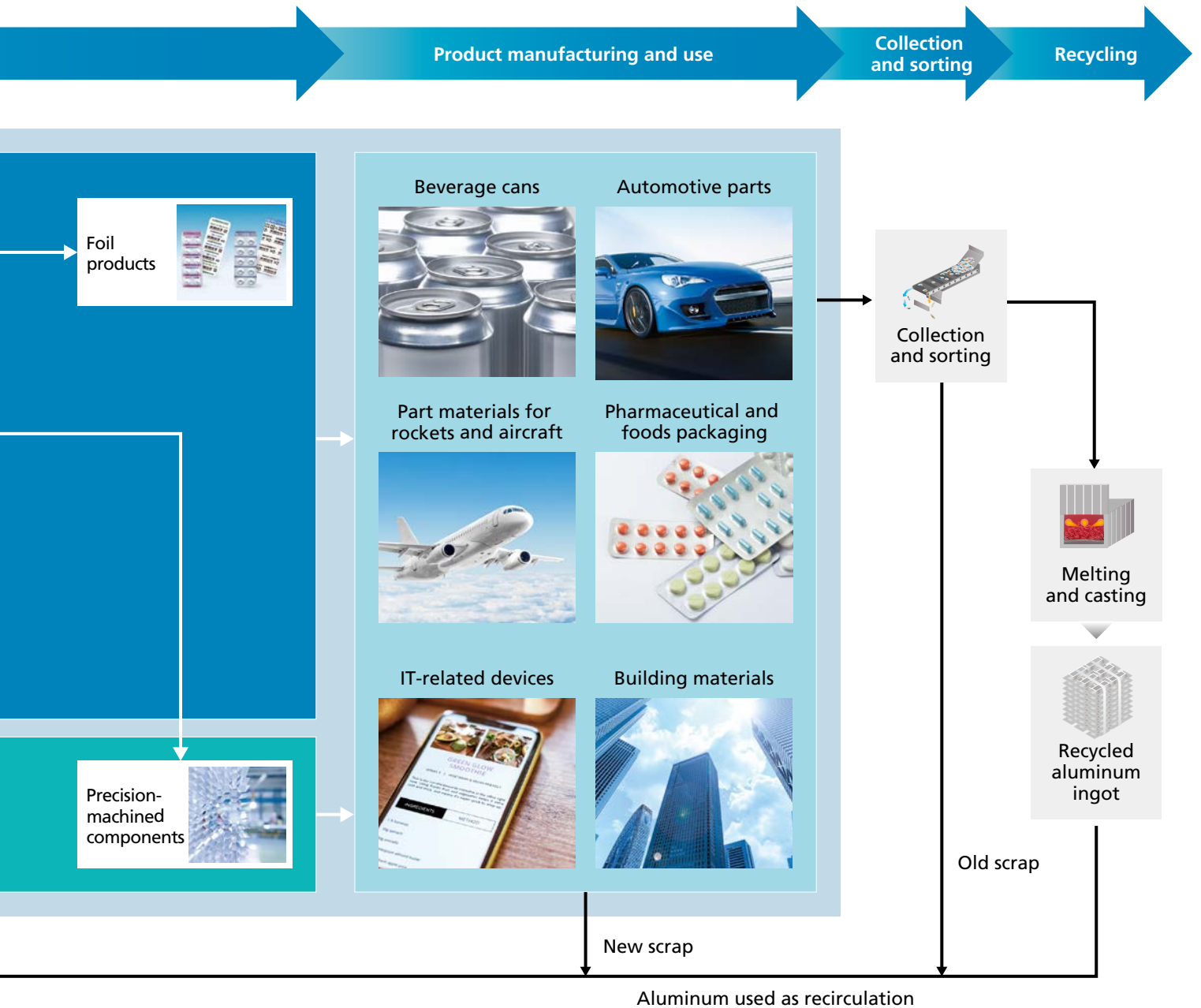
Net sales by business segment in fiscal 2021\*1



Net sales by geographical segment in fiscal 2021



\*1 Segment sales totals include inter-segment sales and transfers.



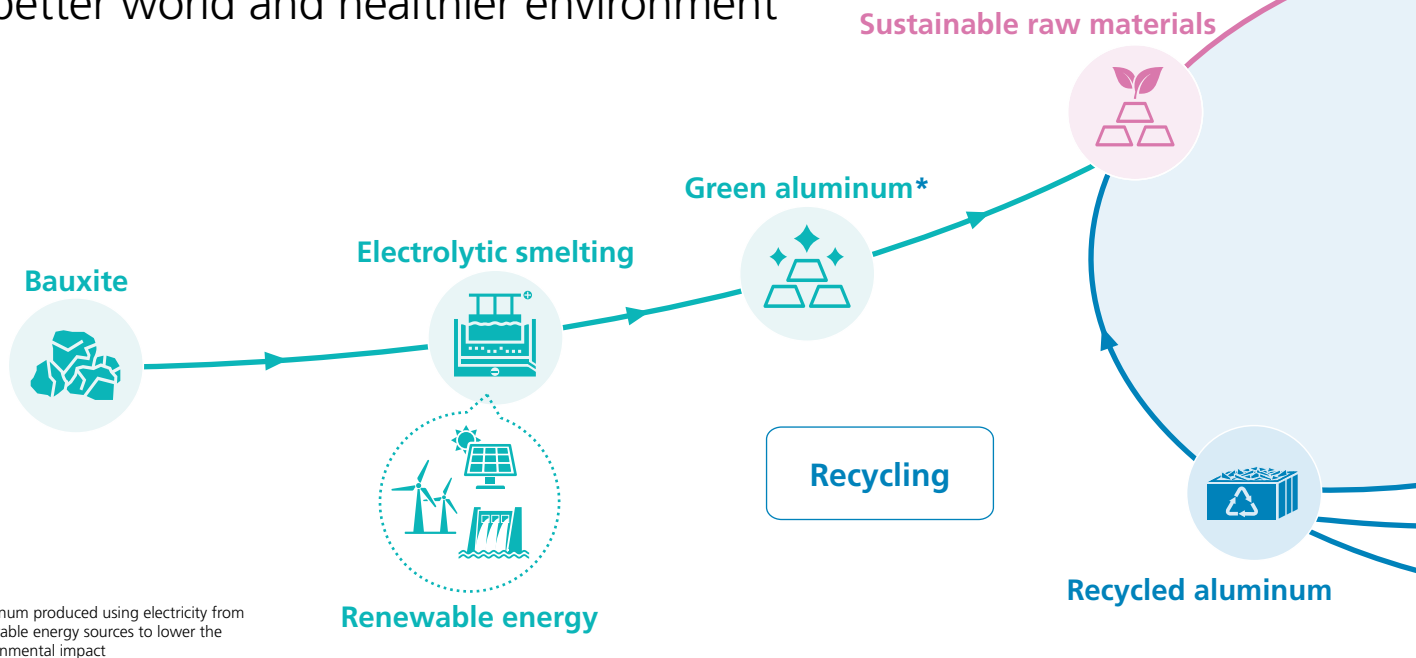
**Sales volume of flat-rolled aluminum by product usage and geographical region**

Product usage	Fiscal 2021 sales volume		Main customers	Main end-product manufacturers
	(Thousands of tons)	(Percent of total)		
Can stock	816	63.1%	Can manufacturers	Beverage and food product manufacturers
Foil stock	56	4.3%	Foil manufacturers	Pharmaceutical and food product manufacturers, Battery manufacturers
Casings and substrates* <sup>2</sup>	14	1.1%	Electronic parts manufacturers	IT equipment manufacturers
Automotive parts	138	10.7%	Automobile and auto parts manufacturers	Automobile manufacturers
Thick plate	53	4.1%	Metal trading companies Shipbuilders	Liquid crystal and semiconductor production equipment manufacturers Shipbuilders
General-purpose materials	216	16.7%	Building material manufacturers and metal trading companies	Large construction general contractors
<b>Total</b>	<b>1,293</b>	<b>100%</b>		

\*<sup>2</sup> PC and smart device casings; electronic equipment substrates



## Broadening the Group's business model for a better world and healthier environment



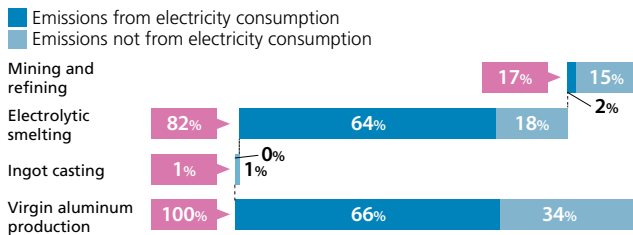
\* Aluminum produced using electricity from renewable energy sources to lower the environmental impact

### Supplying green aluminum

#### Benefit 1 Lower environmental impact at the aluminum smelting stage

A vast amount of electricity is consumed to produce virgin aluminum. In fact, electricity consumption accounts for 66% of all greenhouse gases (GHGs) emitted from mining to smelting and the final casting of ingots. The smelting stage, however, can be eliminated by recycling aluminum, thereby drastically reducing GHG emissions. Because it is recognized as a metal that can help alleviate environmental burdens, global demand for aluminum is on the rise. Since this demand cannot be met by recycled aluminum alone, production of virgin ingots is still necessary. Therefore, efforts are underway to produce these ingots using electricity from renewable energy sources in the smelting process, and widely supply this "green aluminum" to the world.

#### Breakdown of GHG emissions from virgin aluminum production



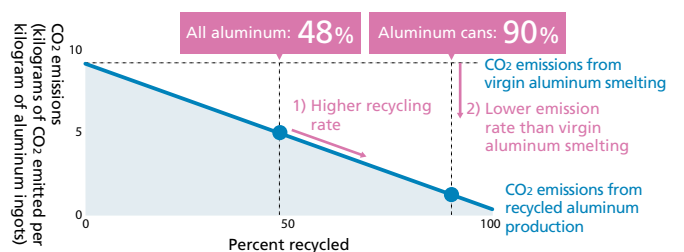
Source: Data published by the International Aluminum Institute

### Collecting and recycling aluminum

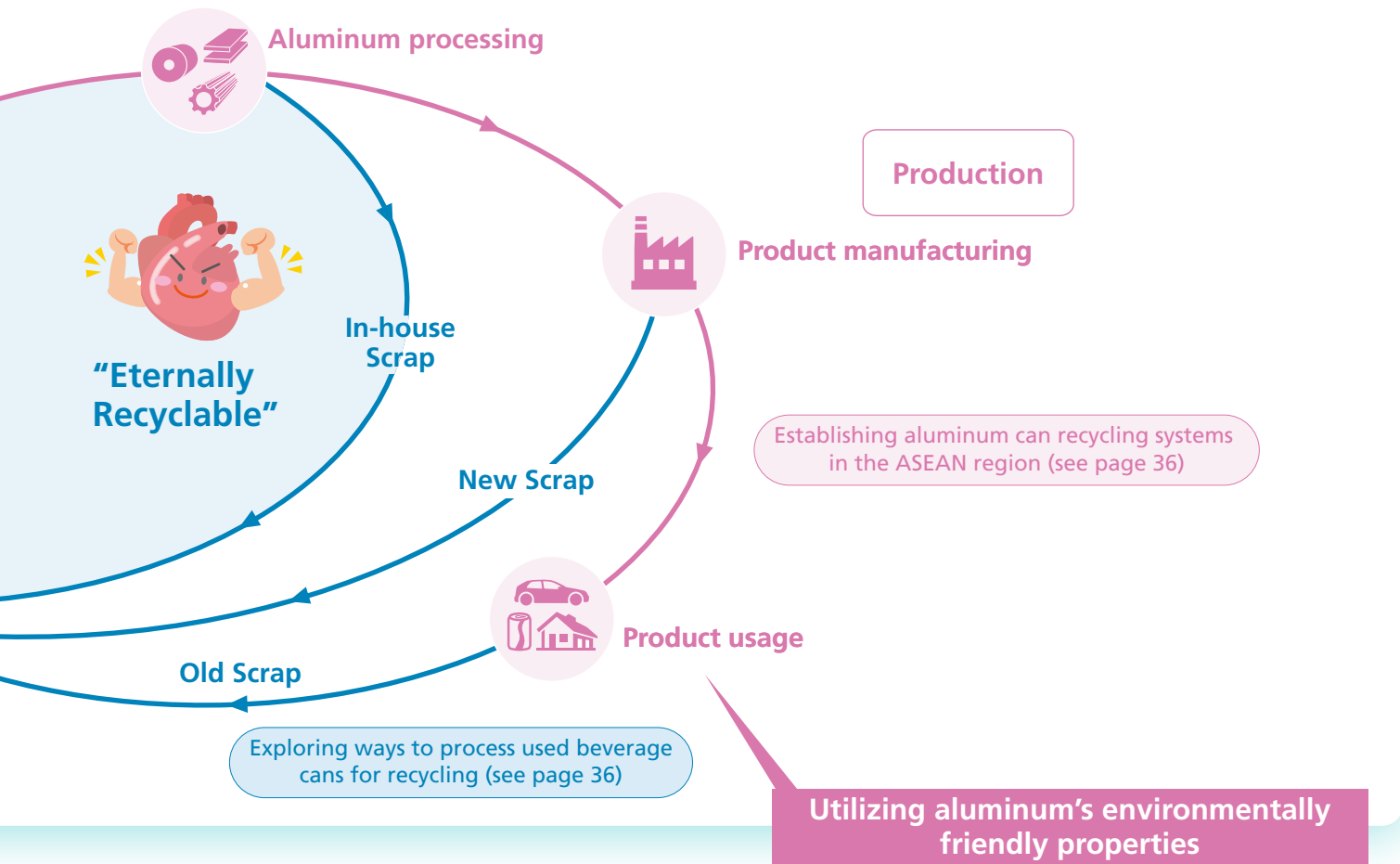
#### Benefit 2 Lower environmental impact of recycled aluminum

Recycled aluminum production emits only about 3% of the CO<sub>2</sub> emitted from the production of virgin aluminum ingots. Accordingly, raising the aluminum recycling rate can substantially reduce environmental impacts at the product manufacturing and usage stages. Significant progress has been made in aluminum can recycling, especially, but challenges remain for recycling other aluminum products. To provide solutions for these challenges, UACJ is collaborating with business partners while drawing on its many years of expertise in aluminum alloy processing and development to set up systems for recovering aluminum from products besides cans, and exploring ways to remove impurities that accumulate as recycling is repeated.

#### Comparison of aluminum recycling rates and CO<sub>2</sub> emissions



Source: *Aluminium Vision 2050* published by the Japan Aluminium Association in September 2020  
 Formula: (CO<sub>2</sub> emissions from virgin aluminum smelting) × (1 - percentage recycled) + (CO<sub>2</sub> emissions from recycled aluminum production) × (percentage recycled)



**UACJ's initiatives for spurring advances in recycling methods**

**Developing an alloy production process to allow the use of various kinds of scrap**

The varying properties of scrap aluminum, even the same alloys are collected, is an obstacle to recycling. To overcome this hurdle, UACJ is applying its expertise built up over many years to develop an alloy production process that allows various kinds of scrap aluminum to be used in the same way as new aluminum ingots.

**Enabling scrap aluminum to be recycled directly**

Directly recycling scrap aluminum into new materials can reduce the overall environmental impact of recycling operations. Toward that end, the Company has established an integrated aluminum can recycling system that allows scrap to be used as is, without any special treatment.

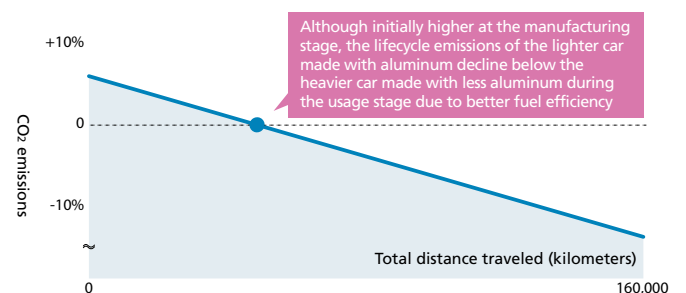
**Developing technologies for sorting different alloys and removing impurities**

Closed-loop recycling can be greatly facilitated if aluminum scrap is sorted by the types of alloys. Therefore, in collaboration with customers, UACJ plans to step up efforts to sort and retrieve processed scrap aluminum. Furthermore, the Company is working to develop and apply new technologies, such as ionic liquid smelting, to remove impurities from collected scrap, which would allow it to be used in the same way as virgin aluminum.

**Benefit 3 Lower environment impact at the product usage stage**

Among aluminum's many beneficial properties, its light weight can contribute to reducing environmental impacts during the product usage stage. For example, using aluminum auto parts to reduce overall vehicle weight helps reduce CO<sub>2</sub> emissions. Environmental impacts can be reduced substantially if aluminum materials suited for all-new applications are developed and supplied in the future. From that standpoint, the Company is widely promoting its UACJ Smart brand of environmentally friendly products, working with other manufacturers in educational and branding initiatives, and accelerating its development of aluminum products for new applications.

**Lifecycle CO<sub>2</sub> emissions of a car made with aluminum**



# Value Creation Process

## Megatrends

Climate change   Growing demand for aluminium containers  
 Rising popularity of EVs (and, consequently, lighter weight vehicles)   Advancement in digital technologies

## Inputs

### Advanced R&D capabilities

- Aluminium-related technologies refined over more than a century
- Involvement in leading-edge research projects, including national projects

### Skilled human resources

- A diverse workforce of about 10,000 employees in more than 10 countries

### Manufacturing prowess

- Annual production capacity exceeding 1.5 million tons
- Diverse manufacturing processes ranging from aluminium sheet and foil production to casting, forging, and precision machining

### Broad network of customers, suppliers, and partners

- Solid customer base of over 600 companies
- Approximately 1,500 suppliers
- Partnerships with national and municipal governments

### Investment capital

- ¥20.7 billion invested in fiscal 2021

### Raw materials and energy (in FY2021)

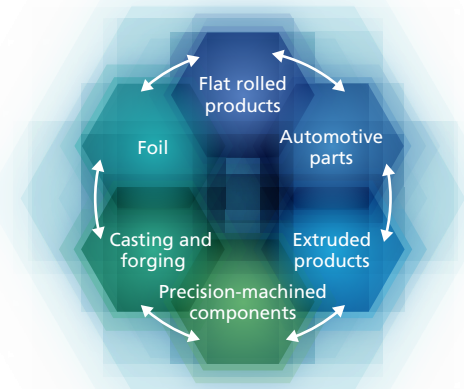
- 1,031 thousand tons of aluminium procured
- 11 thousand tons of secondary raw materials procured
- 515 thousand kiloliters of fuel consumed

## Business activities

### Competitive Advantages

#### Material technologies

#### Six integrated businesses



#### Three-country supply network



#### Active involvement in initiatives to facilitate closed-loop recycling







Sustainability management and value creation capabilities

### Our Vision

Aluminium is our passion. It inspires our work in building a better world and a healthier environment.

### Outputs

#### Beneficial products

 <p>Flat rolled products business</p>	<p><b>Beverage containers</b> (can bodies and lids)</p> <p><b>Automotive parts</b> (body panels and heat exchanger materials)</p>
 <p>Automotive parts business</p>	<p><b>Automotive parts</b> (bumpers and sunroof guide rails)</p>
 <p>Extruded products business</p>	<p><b>Automotive parts</b> (frame components, heat exchanger materials, and pipes)</p> <p><b>IT device materials</b> (smartphone housings)</p>
 <p>Foil business</p>	<p><b>Pharmaceutical and food packaging</b> (push-through-package foil, retort pouches)</p> <p><b>Battery materials</b> (lithium-ion battery foil)</p>
 <p>Casting and forging business</p>	<p><b>Automotive parts</b> (compressor wheels and vehicle air conditioning parts)</p> <p><b>Railcar parts</b> (axle boxes for high-speed trains)</p>
 <p>Precision-machined components business</p>	<p><b>Construction materials</b> (expansion joint covers)</p> <p><b>Industrial machinery parts</b> (materials for industrial fans and storage tanks)</p>

#### Sales volume of flat rolled products (thousands of tons)

• Can stock	816
• Foil stock	56
• IT device materials	14
• Automotive parts	138
• Thick plates	53
• General-purpose materials	216

### Outcomes

#### Value to create by fiscal 2030

##### Value for UACJ's stakeholders

Targets of UACJ Vision 2030

<p>Net sales</p> <p><b>¥800 billion</b></p>	<p>Operating income margin</p> <p><b>6%</b></p>
<p>Return on equity</p> <p><b>10%</b></p>	<p>Return on invested capital <small>(calculated based on operating income before taxes)</small></p> <p><b>10%</b></p>

##### Value for society

A dependable supply of essential materials for products, which contributes to manufacturing industries and people's livelihoods



Lighter weight materials that lead to lower CO2 emissions at the product usage stage



New recycling systems that help promote the shift to a recycling-based society



Workplaces that are rewarding places to work for diverse employees



## Manufacturing prowess and skilled human resources

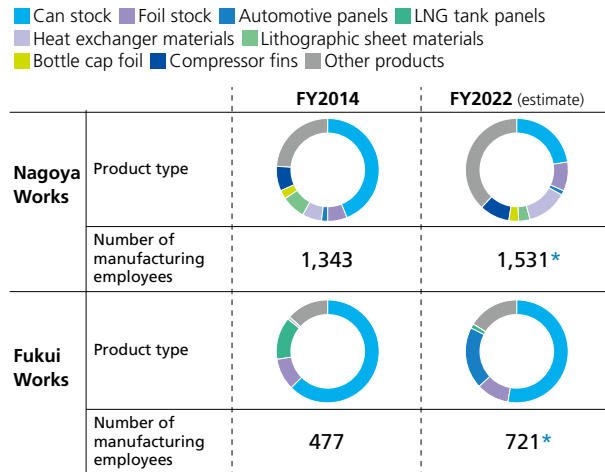
### Meeting robust global demand with a three-country supply network

#### Japan

##### Responding to a changing market by shifting production of certain products between manufacturing plants to boost productivity and profitability

Against the backdrop of Japan's shrinking population, UACJ's operating environment has been undergoing significant changes. To maintain profitability under those circumstances, the Company has closed manufacturing plants, shifted production of certain products to other plants, and reduced back-office personnel as part of structural reforms initiated in fiscal 2019. As a result of these actions, both productivity and profitability have risen. For example, compared with fiscal 2019, the Company lowered the break-even point in the Flat Rolled Products Business by 6% in fiscal 2021, and expects to reduce it by 10% in fiscal 2022.

##### Product breakdown and total employees at plants in Japan



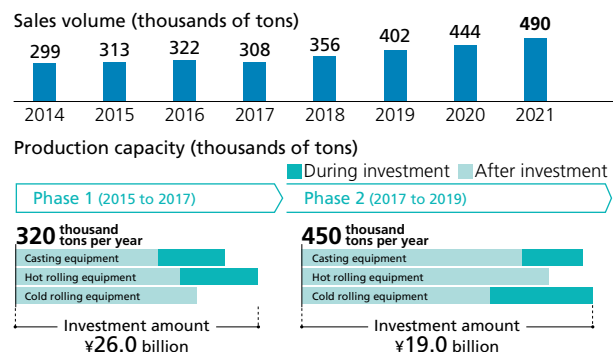
\* As of March 31, 2022

#### United States

##### Boosting production capacity to capture demand in anticipation of market growth in the years to come

In North America's aluminum can market, demand has continued to grow rapidly in recent years, and is projected to rise by 6% annually through to 2025. In response, UACJ has invested in manufacturing facilities operated by Tri-Arrows Aluminum over two phases, boosting annual production to 450 thousand tons. The subsidiary posted record-high sales volume in fiscal 2021, and is scheduled to operate at full capacity up to 2025 based on contracts concluded with customers.

##### Tri-Arrows Aluminum's sales volume and production capacity



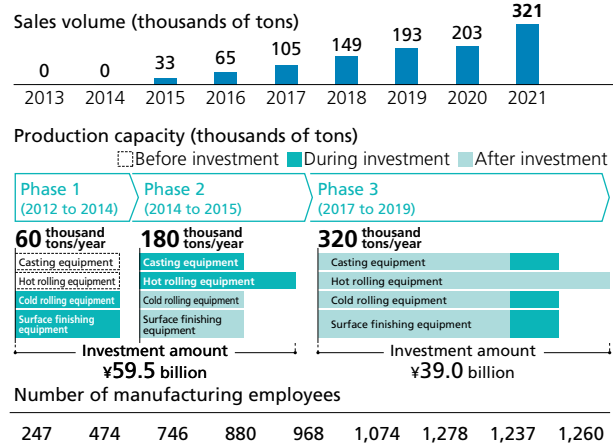
Note: The number of Tri-Arrows Aluminum's employees is not shown as they are mostly not involved in production since the company's flat rolled aluminum production facilities are jointly owned by Novelis Inc. through a joint venture agreement, and the facilities are contracted out to Logan Aluminum Inc.

#### Thailand

##### Training local employees to handle operations at manufacturing facilities leads to full capacity and higher sales volume

UACJ established UACJ (Thailand) with the goal of tapping growing demand for aluminum products in Asia. Over three phases of investment, annual production capacity has been expanded to 320 thousand tons. Initially, UACJ transferred equipment to this subsidiary from Nikko Works in Japan, and dispatched many of its engineers to provide training onsite. All operations are now handled by employees in Thailand, and sales volume reached 320 thousand tons in fiscal 2021. Training programs have also been set up to groom local employees for management positions.

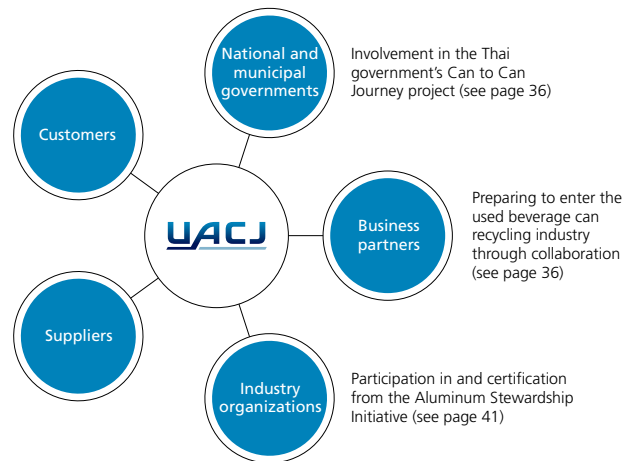
##### UACJ (Thailand)'s sales volume and production capacity



Partnerships and environmental initiatives

Building partnerships and expanding business models to facilitate recycling

The UACJ Group is building a wider network of partnerships to establish business models based on aluminum recycling, which will lead to lower CO<sub>2</sub> emissions, more effective resource usage, and less waste. The Group took steps to strengthen ties with various partners in fiscal 2021, including a public-private-academic initiative in Thailand that aims to accelerate aluminum can recycling programs. UACJ is also exploring ways to enter the used beverage can processing industry in collaboration with business partners.

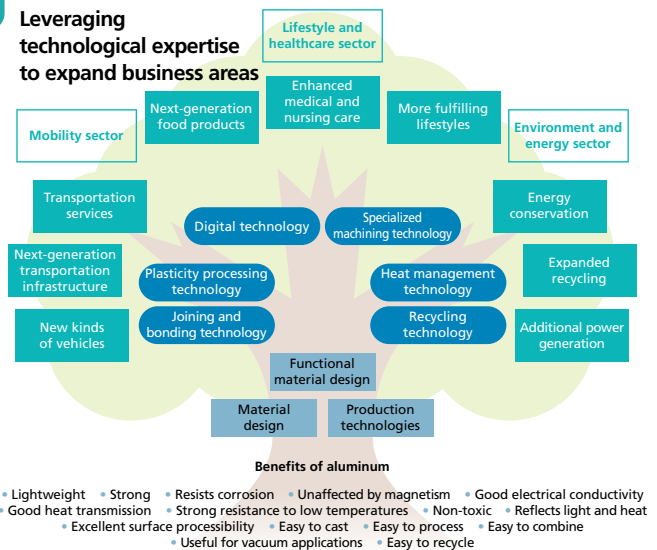


Intellectual capital

Focusing research and development on expansion into new sectors

With a view to offer the benefits of aluminum products to a broader range of consumers, UACJ's R&D activities are focusing on expansion into new sectors specified in UACJ Vision 2030—the lifestyle and healthcare, mobility, and environment and energy sectors. Applying technologies refined over more than a century since one of its founders established Japan's first private sector research laboratory in 1916, UACJ is working to develop innovative recycling technologies and new products with the goal of further increasing its intellectual capital.

Leveraging technological expertise to expand business areas

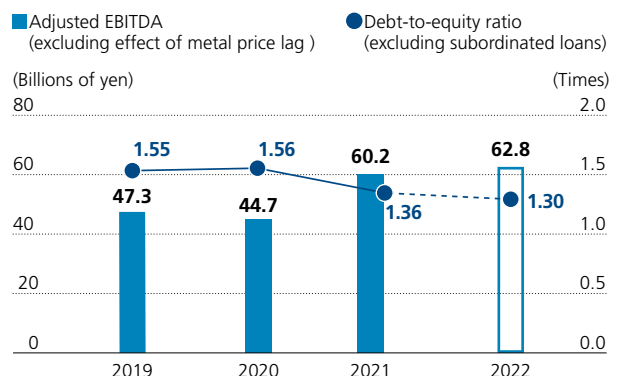


Improved financial structure

Aiming to continue meeting its responsibility as a world-class aluminum products supplier, UACJ implemented structural reforms to improve its financial structure

UACJ made large investments to boost the production capacity of its subsidiaries, Tri-Arrows Aluminum and UACJ (Thailand), in order to meet growing global demand for aluminum products. Returns on these investments were slower than anticipated, however, causing the Company's financial position to weaken. In response, UACJ initiated a series of structural reforms in fiscal 2019. As a result, the Company has increased earnings capacity and lowered its debt-to-equity ratio by using earnings to strengthen its financial structure.

Debt-to-equity ratio and adjusted EBITDA



**Harunobu Goro**

Executive Director and Analyst  
UBS Securities Japan Co., Ltd.



## Results of structural reforms establish credibility in the market and raise expectations for growth

Since October 2019, UACJ has been carrying out structural reforms aimed at increasing earnings capacity, reforming its financial structure, and strengthening management systems. These measures led to record-high sales and profits in fiscal 2021. Director and Executive Vice President Teruo Kawashima met with Harunobu Goro from UBS Securities Japan, one of UACJ's main institutional investors, to discuss how the Company is evaluated in capital markets and what investors expect going forward.

### Structural reforms are on track to contribute ¥21.0 billion in income after additional measures were stepped up in response to market changes

**Goro:** I think UACJ has changed since it initiated structural reforms. Therefore, I would like to ask you today about how the reforms progressed and what growth strategies will follow. Increasing earnings capacity was one of the main pillars of the reforms. Could you talk about that first?

**Kawashima:** To increase earnings capacity, we rationalized and optimized production in Japan, improved our product mix, and scaled down unprofitable businesses while generating returns on the large investments previously made in the United States and Thailand. All of these measures proceeded according to plan, for the most part, but we executed additional measures to speed up the progress of those that had been delayed. As a result, we are on track to achieving our goal of generating ¥21.0 billion in income from the structural reforms.

**Goro:** The reforms appeared to make smooth progress, but I am concerned about the current state of the global market. The automotive industry has been slow to resume production because

of semiconductor shortages and supply bottlenecks of parts.

Rising production costs in Japan due to the yen's dramatic decline and, consequently, much higher energy and raw material prices are also a cause of concern.

**Kawashima:** You are certainly right. We have been taking steps to deal with changes in the market, such as rapidly rising prices of aluminum alloy additives and energy. Specifically, we have introduced product pricing systems that reflect the fluctuating prices of these items, and customers have, for the most part, agreed to those conditions.

The UACJ Group supplies can stock and automotive parts to many companies, and although we have been affected by production slowdowns in the auto industry, demand for can stock has remained bullish. Since the Group's business is structured in this way, it is not seriously impacted overall by demand fluctuates in one specific market.

**Goro:** I see. I also understand that earnings capacity has improved, and one indicator you use to measure it is return on invested capital. It was around 2% before the structural reforms commenced, but rose to 11.1% in fiscal 2021. This increase was largely due to the effect of the metal price lag, so, as an investor, I



### Teruo Kawashima

Director, Executive Vice President in charge of group-wide financial affairs, corporate communications, and management strategies

am very interested in knowing how much it has actually improved.

**Kawashima:** We calculate return on invested capital based on operating income before taxes, and we are targeting 6% by fiscal 2023, the final year of our current mid-term management plan. At present, the amount of invested capital is high because the market price of aluminum increased sharply, but we still want to achieve this target. We began using return on invested capital as a performance indicator during our second mid-term management plan, but it wasn't widely understood in the Company. We have been actively explaining its significance throughout the Company over the past two and a half years as we implemented the structural reforms and our third mid-term management plan. Specifically, we report the amount of invested capital in each business and set hurdle rates for each business division, so that everyone clearly understands that when a certain amount of capital is invested, a specific amount of returns must be generated.

**Goro:** Besides return on invested capital, return on equity and the debt-to-equity ratio are used as key performance indicators.

**Kawashima:** Yes, in operational and financial management, we use return on invested capital to estimate the earnings capacity and capital efficiency of each business, and the debt-to-equity ratio as an indicator of the strength of the Company's financial position. By strictly managing results for both, we can increase return on equity. From that standpoint, all three performance indicators are vital for management.

### Expansion of manufacturing plants overseas has greatly increased the Group's ability to generate cash over the long term

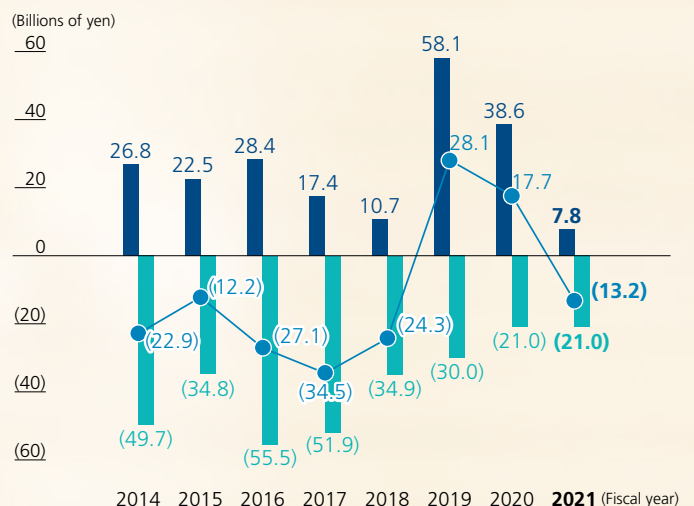
**Goro:** Next, I would like to know how you have been reforming the financial structure. Since the structural reforms were initiated,

free cash flow turned positive as large investments were largely completed, and the debt-to-equity ratio also improved. In fiscal 2021, however, steeply rising prices of aluminum and other raw materials required large amounts of working capital, resulting in negative free cash flow. More than a few investors feel uneasy about this, given UACJ's financial position in the past and market sentiment going forward. How would you respond to them?

**Kawashima:** Because of how operations are structured in the manufacturing industry, time may be needed for capital investment to be reflected in cash flow. An especially long time elapsed, however, for our investment in new manufacturing facilities in Thailand to be reflected. During that lag, we initially planned to have our domestic operations cover UACJ (Thailand)'s losses, but the trade war between the U.S. and China negatively impacted our business in Japan. Consequently, the negative cash flow greatly

#### Cash flows

■ Net cash provided by operating activities ■ Net cash (used in) investing activities ● Free cash flow





weakened the Company's financial position.

Nevertheless, by expanding the scale of operations through proactive capital investment, we greatly increased the scale of cash flow that can be generated by the Group. When UACJ was established through merger in 2013, earnings before interest, taxes, depreciation and amortization was around ¥30 billion. Now it is over ¥60 billion, and we expect it to reach ¥70 billion in the near future. This growth is the result of expanding the scale of operations along with improvements in the cost structure.

As of March 31, 2022, the debt-to-equity ratio stood at 1.36, and we have been making steady progress towards our targets of 1.3 by the end of fiscal 2022 and 1.2 by the end of the current mid-term management plan.

**Goro:** Indeed, the large investments made since UACJ's establishment appear to have produced big results.

**Kawashima:** Once aluminum rolling equipment is up and running, although some investment will be needed later for periodic maintenance, profits can be generated for many years. Rather than simply entering a phase of recovering past investments, I think we have established powerful means for continually generating earnings over the long term. As you pointed out, the Company posted negative free cash flow of ¥13.2 billion in fiscal 2021, with operating cash flow coming in at less than ¥8 billion due to increases in working capital. Nevertheless, as recorded in the cash flow statements, the Company repaid a substantial amount of long-term loans totaling about ¥32 billion more than proceeds from long-term loans.

Free cash flow was negative until fiscal 2018 due to large-scale capital investment, but with the completion of that investment, the expanded scale of operations resulted in more operating cash flow. This enabled the Company to generate free cash flow, which will provide a source of funds for strengthening the Company's financial position and investing in growth strategies in the future. I expect the Company's market cap to increase as a result.

**Goro:** So, rather than analyzing short-term fluctuations in free

cash flow, which can be substantially affected by aluminum prices, you would like investors to focus on UACJ's ability to generate cash over the long term.

**Kawashima:** That's right. We have laid the groundwork for steadily generating cash over the long term, providing a source of funds for strengthening the Company's financial position. That was the biggest achievement of the large investments in the past and the more recent structural reforms.

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### Improvements to the performance-linked remuneration system keep management focused on results

**Goro:** Strengthening management systems was another pillar of the structural reforms. I understand that the Company's corporate governance system has been streamlined.

**Kawashima:** Yes, the number of executive officers was reduced by more than half. Consequently, reaching a consensus in deliberations has been much smoother, and we are able to have more in-depth discussions. Furthermore, to select candidates for director and auditor positions, we specified what skills and experience are needed for their roles in management supervision, and considered which skills are ideal in the process of creating a skill matrix. As a result, our management team now has a diverse range of expertise, skills, and experience, and deliberations by the Board of Directors have become very dynamic.

**Goro:** Various changes were also made to the officer remuneration system, right?

**Kawashima:** Yes, the ratio of performance-linked remuneration was increased, and total shareholder return was included as a basis for calculating officer remuneration in order to align management and business execution with the interests of shareholders and investors. Moreover, to speed up efforts to promote sustainability, the achievement level of non-financial targets linked to each of our materiality issues has been reflected in officer remuneration.

**Goro:** Investors are now paying close attention to changes in management engagement. They also expect regular disclosure of unambiguous information regarding efforts to improve the efficacy of the Board of Directors.

**Kawashima:** The efficacy of the Board of Directors is periodically evaluated, and a third party is also involved in this process. The evaluation results have indicated steady progress each time. In the future, I would like such corporate governance information to be disclosed in a straightforward manner.



## Meeting market expectations and building credibility with concrete action plans in addition to ambitious roadmaps and targets

**Goro:** I understand that the structural reforms have produced steady results. I think the next thing investors will focus on is the growth strategies you pursue after the reforms and current mid-term management plan are completed. Could you tell me about your plans for growth investment in the future?

**Kawashima:** We expanded production capacity through substantial investment in Thailand, the United States, and Japan, so our plan from now is to maximize this capacity. Demand for can stock is growing rapidly in North America, in particular, and Tri-Arrows Aluminum's rolling mills are already operating at full capacity, so we will invest in further capacity expansion there. The scale of that investment, however, will not be as large as the prior investment because manufacturing plants have already been constructed, so they would only need to be expanded.

**Goro:** Maintaining a sound balance between future investment and financial discipline is necessary, of course, but disclosing information about when the investment is expected to be recovered is also important. By doing this effectively, UACJ could really build up credibility in the market.

**Kawashima:** We do not plan to construct any new factories from the ground up, as we did in the past, so the amount of future growth investment will not be as substantial, and generating returns will not take such a long time. In Japan, the U.S., and Thailand, the Group has a total of five hot rolling mills, and they still have available capacity. If we expand capacity of finishing and processing facilities in response to growing demand, providing clear information on the timing of returns should certainly be possible, in my opinion. Now that the Company is generating over ¥60 billion in earnings before interest, taxes, depreciation and amortization, I think the level of cash flow will allow it to both strengthen its financial position and carry out strategic investment.

**Goro:** I would also like to ask you about the Group's recycling and solutions businesses. UACJ is taking the lead in the industry through these businesses, and if they are successful, UACJ's market cap and shareholder value should also go up.

**Kawashima:** The recycling and solutions businesses are important for our business strategies going forward. The collection and recycling of used aluminum cans emits 97% less CO<sub>2</sub> than virgin aluminum smelting. Aluminum can be recycled practically endlessly, so raw materials need to be mined just once. Therefore, aluminum increases value from both an environmental and economic perspective. In our solutions business, too, we will



actively add new value to products by making the most of aluminum's beneficial properties.

**Goro:** In the future, all companies will have to contribute to sustainable economic growth. In my opinion, we may need new indicators for measuring the value of companies, such as added value per unit of CO<sub>2</sub> emissions. I think aluminum has great potential from such an environmental standpoint. If investment in closed-loop recycling and the development of value-added products lead to future growth drivers, my interest would be peaked and my expectations raised. Do you intend to set specific goals for these initiatives in the next mid-term management plan?

**Kawashima:** We will begin discussing our next mid-term management plan, which will commence in April 2024, at a later date, and, of course, specific goals will be set for our initiatives. Compared to when we formulated our current mid-term management plan, the Company's earnings capacity has increased markedly and demand for can stock in North America has risen substantially. People are also much more interested in resource recycling as a means to address environmental problems. In light of these changes in our operating environment, and based on our long-term roadmap, UACJ Vision 2030, I think the next mid-term management plan will focus on how the Group's increased production capacity, and its ability to generate cash over the long term can be effectively utilized to achieve sustainable business growth.

**Goro:** Investors are not only interested in ambitious roadmaps and targets—they pay attention to concrete action plans and their feasibility. In this regard, UACJ revised its action plans and quickly implemented additional measures in response to market changes after its structural reforms and current mid-term management plan had commenced. Management's ability to execute its plans appears to have markedly improved compared with the past.

**Kawashima:** I appreciate your observation. When we were carrying out the structural reforms, we continually engaged in discussions about how to achieve various targets, verify progress, and execute related measures. I believe this was one of the successes of the reforms. As a result, despite big changes caused by the COVID-19 pandemic, which started soon after we launched the reforms, we were able to execute every measure generally in line with our plans.

**Goro:** I look forward to seeing your plans put into action in the future.

# Evolution of UACJ's Mid-term Management Plans

Major achievements and new challenges since the first plan launched in fiscal 2015

Working to accomplish ambitious targets by 2030

	First Mid-term Management Plan (FY2015-2017)	Second Mid-term Management Plan (FY2018-2020)
Main objective	Establish a global supply network amid rapidly rising demand for aluminium products worldwide	Leverage expanded production capacity to meet demand worldwide as a global player
Operating environment and challenges	<ul style="list-style-type: none"> <li>Demand for aluminium cans and foil increased rapidly amid rapid economic growth in Asia and the Middle East</li> <li>Demand for aluminium auto and aircraft parts increased amid efforts to reduce vehicle and aircraft weight by manufacturers, particularly in the U.S. and Europe</li> </ul>	<ul style="list-style-type: none"> <li>Demand for aluminium products grew globally                             <ul style="list-style-type: none"> <li>Aluminum can stock demand rose mainly in Australia, China, and other Asian countries</li> <li>The shift to lighter cars and EVs drove up demand for aluminum auto body parts in North America</li> </ul> </li> <li>Financial results were far short of previous targets                             <ul style="list-style-type: none"> <li>Sales volume had declined and energy costs rose steeply</li> </ul> </li> <li>The Company's financial position worsened                             <ul style="list-style-type: none"> <li>Interest-bearing debt had increased due to rising costs for starting up new operations</li> </ul> </li> </ul>
Basic strategies and major policies	<ul style="list-style-type: none"> <li>Bolster operations in Asia and other growth regions, and expand product lineups for growing industries, including the automotive, transport, and energy industries</li> <li>Integrate technologies and optimize production in each business</li> <li>Improve advanced basic research and make use of the Company's wealth of accumulated technologies to develop new technologies and products</li> </ul>	<ul style="list-style-type: none"> <li>Continue focusing on the growing automotive industry and growth markets in Asia and North America</li> <li>Steadily generate returns on past investments</li> <li>Increase capital efficiency with an emphasis on ROIC</li> <li>Promote shared principles of conduct as the UACJ Way</li> </ul>
Key achievements	<ul style="list-style-type: none"> <li>Established a global supply network for can stock based in Japan, Thailand, and the U.S.</li> <li>Established a supply network for automotive parts in the U.S. and Mexico</li> <li>Optimized production facilities, thereby contributing ¥11 billion in earnings</li> <li>Centralized R&amp;D at Nagoya Works and made progress in developing new products and next-generation core technologies</li> </ul>	<ul style="list-style-type: none"> <li>Completed a three-country by supply network boasting world-class production capabilities</li> <li>Streamlined the Group's business portfolio</li> <li>Rationalized production in Japan</li> <li>Achieved positive free cash flow</li> <li>Slimmed down management</li> <li>Substantially reduced the number of full-time directors and executive officers</li> </ul>
Remaining challenges	<ul style="list-style-type: none"> <li>Financial results fell far short of the plan's targets                             <ul style="list-style-type: none"> <li>Sales volume dropped and energy costs rose steeply</li> </ul> </li> <li>The Company's financial position worsened                             <ul style="list-style-type: none"> <li>Interest-bearing debt increased due to rising costs for starting up operations</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>Slower than expected returns on large-scale capital investments                             <ul style="list-style-type: none"> <li>Sluggish profitability of UATH (Thailand), UACJ Automotive Whitehall, and Fukui Works</li> </ul> </li> <li>Worsening business results and financial position                             <ul style="list-style-type: none"> <li>Dramatically changing market conditions due to the U.S.-China trade war and COVID-19 pandemic</li> <li>Declining earnings capacity following management's slow response to changing market conditions</li> </ul> </li> </ul>

**Third Mid-term Management Plan**

(FY2021-2023)

Complete structural reforms and position the Group for future growth and the success of UACJ Vision 2030

- Market demand for aluminium products is booming worldwide
  - Economic growth in emerging countries is driving increases in purchasing power and demand
  - Global demand for aluminium can stock is growing, particularly in North America
  - The Japanese market is shrinking as anticipated due to population decline
- The need for environmentally friendly materials is growing
  - Demand for plastic alternatives and recycling is rising
  - Demand for aluminium automotive parts is growing amid fuel efficiency regulations and rapid shift to EVs
  - Global ESG- and SDG-related initiatives are gaining momentum
- Technological innovation is advancing rapidly
  - The mobility revolution is creating new applications for materials
  - Innovation in digital technology is transforming business models
- Weak financial structure
  - Interest-bearing debt has been increasing following sluggish returns on prior investments

- Complete structural reforms
  - Raise earning capacity
  - Improve the financial structure
  - Strengthen management systems
- Strengthen foundations for growth
  - Add more value to products
  - Focus on growth markets and industries
  - Create new businesses
  - Strengthen business foundations
- Promote global sustainability
  - Contribute to solving issues related to climate change

To be summarized after the plan is completed

To be summarized after the plan is completed

**Fourth Mid-term Management Plan**

(FY2024-2026)

Lay a path for accomplishing the goals of UACJ Vision 2030

To be drafted in FY2023

To be drafted in FY2023

To be drafted in FY2023

To be drafted in FY2023

**UACJ VISION 2030**

- Provide products that contribute to societal development by capturing demand in growing industries and markets
- Enhance aluminium materials in the supply and value chains to bring economic benefits to communities worldwide
- Develop all-new products and business models that offer solutions for challenges facing society
- Lower environmental impact by reducing CO<sub>2</sub> emissions across product lifecycles

**Financial targets**

Net sales

¥800 billion

Operating income margin

6%

Return on equity

10%

Return on invested capital  
(Calculated based on operating income before taxes)

10%

**Non-financial targets**

Scope 1 and 2  
CO<sub>2</sub> emissions

30% reduction compared with FY2019  
(Tons of CO<sub>2</sub> equivalent per ton of products manufactured)

**Our Vision**

Aluminium is our passion. It inspires our work in building a better world and a healthier environment.