

**We believe that a changing environment offers opportunity for new growth, through which we will enhance our global competitiveness even further**



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Representative Director &  
President

## Message from Management

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### Changing Environment Reveals Opportunities for New Growth

Reflecting on the last four years since UACJ embarked on its new challenge of aiming to become an aluminum industry leader in a competitive global market, I strongly sense how rapidly things have changed in that seemingly short period. The environment surrounding the worldwide aluminum industry has undergone dramatic change; more than we could have ever anticipated, including impressive growth in Asian and emerging markets and the accelerated demand for aluminum automotive materials. At UACJ, we see these changes in the environment as prime opportunities for new growth, and have therefore focused on strengthening our foundation to compete internationally as a global company.

In fiscal 2016, we concentrated on enhancing our global supply network, the pillars of which are Thailand and North America. UACJ (Thailand) Co., Ltd. (UATH) has an annual production capacity of 180,000 tons and a clientele of over 50 companies reaching from the Middle East to Australia, and including Southeast Asia. In-house market research indicates that the combined demand for can stock in Asia (excluding Japan and China), Australia, the Middle East, India and Africa is likely to increase from 880,000 tons in 2014 to 1.25 million tons in 2020.

Encouraged by the positive prospect for future demand, in November 2016, it was decided to implement a third phase of investment in Thailand. This will raise the annual production capacity at UATH to 320,000 tons. As a result, the UATH Rayong Works is set to become one of Asia's leading plants, with production capacity, product quality and cost competitiveness matching those of the Nagoya and Fukui Works. In addition, we believe it will help us achieve the consolidation of our presence as a global supplier. In doing so, we are ensuring the can manufacturers calling for global supply networks that we are capable of providing materials from our three hubs, Japan, North America and Thailand.

## Seeking Opportunity in Change as Source of Growth

### Positioning of Mid-term Management Plan

Fiscal 2015-2017

**Reinforce foundation**

Global Step I  
Mid-term management plan

Fiscal 2018-2020

**Accelerate growth**

Global Step II  
Next mid-term management plan

Fiscal 2021 onward

**Advance**

Global Step III  
Vision for the future

### Major Policies of the Global Step I Mid-term Management Plan

**1** Expand growth products in the transportation field—focusing on automobiles—and the energy field, and strengthen business in growth regions such as Asia

**2** Construct an optimal production network for each business sector utilizing the synergies created through unification

**3** Develop unique technologies and products by applying our vast technological prowess to fundamental research

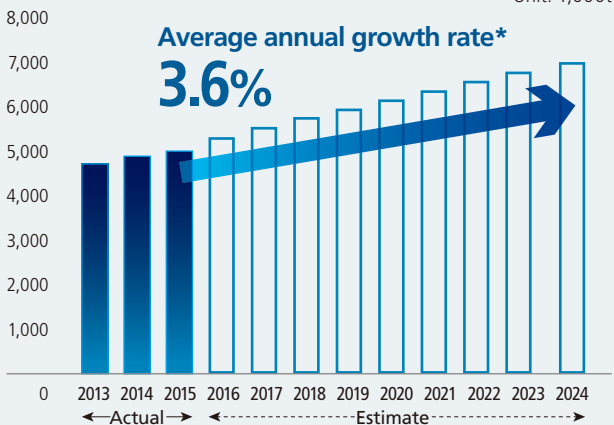
In North America, we entered a joint venture with European company Constellium N.V. and established Constellium-UACJ ABS LLC (CUA) in 2014. CUA is at the center of our efforts to enter the automotive body sheet market during the current period of rapid growth in the industry. Obtaining materials from the Logan Mill of Tri-Arrows Aluminum Inc. (TAA), which boasts the world's highest production efficiency, our new North American entity began shipping samples and selling products to automobile manufacturers in June 2016.

Furthermore, thanks to the growing demand for lighter vehicles, in addition to being used for automotive body sheets, the application of aluminum is expanding to use in structural materials, such as chassis. It is amidst such trends, in April 2016, Whitehall Industries, recognized as North America's No.1 brand in structural materials and parts, became UACJ Automotive Whitehall Industries, Inc. (UWH). Approximately 3 billion yen is set for investment in UWH with the aim of improving production efficiency and quality, and boosting earnings through the introduction of state-of-the-art machinery and equipment. The UACJ Group plans to continue increasing its presence as a supplier of automotive body sheet and structural materials in the North American market.



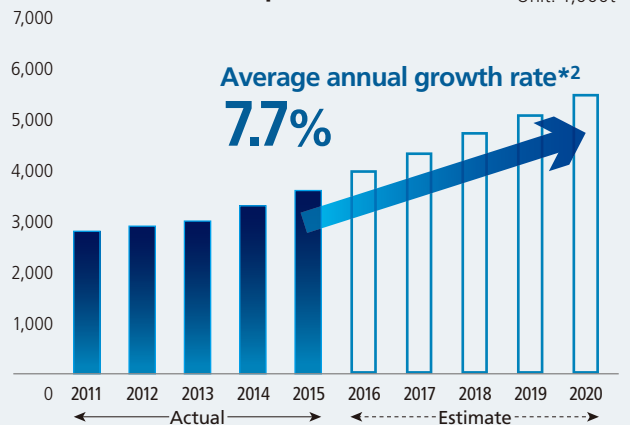
While the demand for automotive body sheet and structural materials continues to grow in the North American market, there is concern that there may be a shortage of can stock materials as aluminum suppliers shift their focus towards supplying automotive materials. TAA is placing an emphasis on increasing production capacity and keeping costs down through a shift toward the in-house production of slabs. Following a capital expenditure of 240 million dollars in October 2015, in

**Aluminum sheet demand for cans around the world**



\*Average annual growth rate from 2015 to 2024  
Source: CRU

**Aluminum sheet demand for worldwide transportation\*1**



\*1 Collective terms for automobiles, aircraft, ships, etc.  
\*2 Average annual growth rate from 2015 to 2020  
Source: CRU

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November 2016, the UACJ Group decided to invest another 175 million dollars. This aggregate spending should help boost the annual production capacity at TAA from the current 320,000 tons to 400,000 tons by 2019. Through these efforts, we are aiming to establish a production foundation that ensures an ongoing supply of base materials for automobiles without sacrificing our supply capacity for can stock.

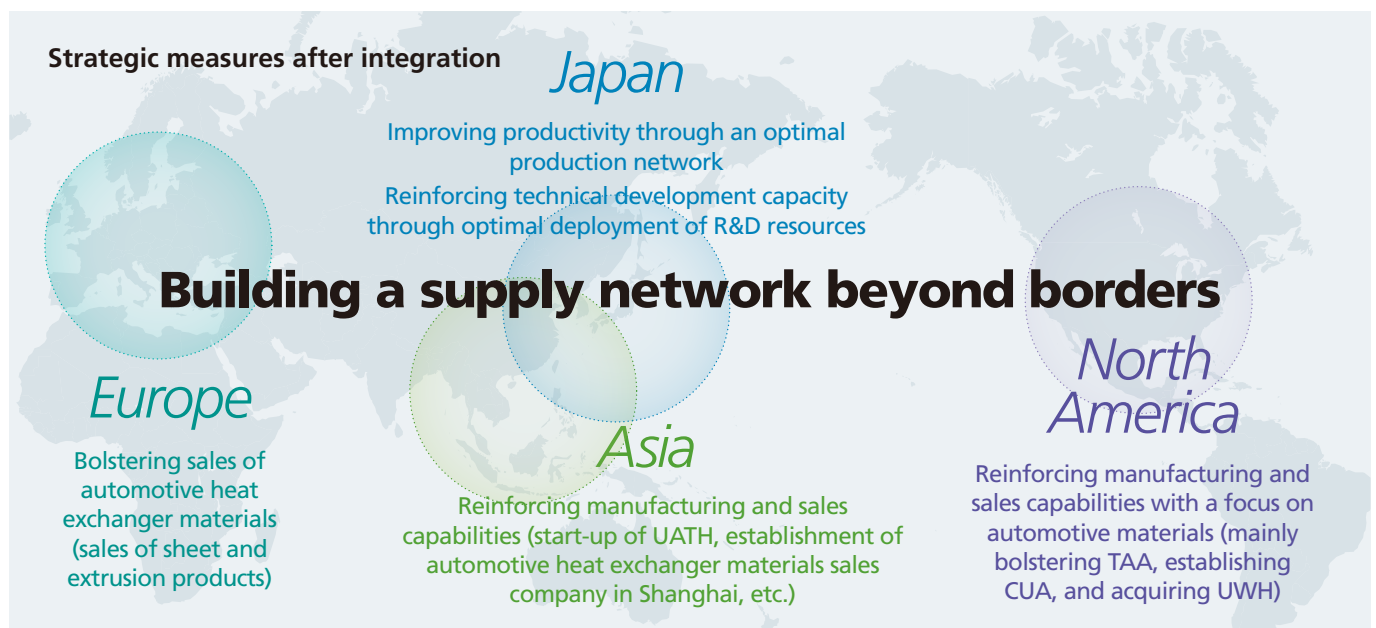
In Japan, our initiative to optimize the production network has progressed mostly on schedule, and was more or less completed before the end of fiscal 2016. On the R&D side, resources have been consolidated at our R&D base in Nagoya, where new product development and the strengthening of next-generation basic technologies are underway. As a result, automotive body parts have been developed making the most of an innovative joining technique, and we took part in a large-scale national project that came to fruition in the form of the successful development of a high-strength, highly durable aluminum alloy for aircraft. We are consistently creating new products and technologies with added value.

In fiscal 2016, we aggressively carried out the afore-mentioned strategic investments in Japan and abroad with the aim of achieving further growth as a

global company. Consequently, the sales volume for the fiscal year exceeded that of the previous year, surpassing the 1 million ton mark for the first time since integrating management. In value terms, however, sales were affected by the negative impacts of foreign exchange rates in the wake of a stronger yen and a drop in ingot prices. As a result, sales fell to 568.3 billion yen, down 7.4 billion yen year-on-year. At the profit level, due to an improvement in inventory valuations, a lower per unit cost of energy, cost reduction synergies resulting from integration, and improved earnings at UATH, operating income surged to 25.9 billion yen, up 10.7 billion yen year-on-year. Ordinary income was up 7.8 billion yen year-on-year, for a total of 19.8 billion yen. Net income attributable to owners of the parent company also increased, 8.7 billion yen, up 3.6 billion yen year-on-year.

### Contributing More to Society and the Environment by Pursuing the Use of Aluminum in Potentially New Ways

Aluminum is widely used in modern-day society, but it is, as a matter of fact, a relatively new material that has only been used by humans for about 200 years. Because of this relatively short history, there is plenty of opportunity for new applications to be explored with



# “Solving Social Issues with Aluminum”

fresh ideas and innovative technologies.

The UACJ Group believes that the ultimate mission of the aluminum manufacturer is to bring the maximum potential out of the material, and in doing so, help solve various social issues. With this in mind, we continue to work on the development of diverse technologies and applications. For example, in the development of automotive body sheet, we stepped beyond simply reducing the weight of an automobile by replacing iron with aluminum. With the aim of creating new added value—ensuring higher assembly process productivity by introducing a new joining technique—the UACJ Group is focusing on technological developments while working with automotive manufacturers. We are convinced that we can continue creating innovative new technologies and products in a wide range of areas, including machinery, electronics, environment and energy, as well as the automotive and aerospace industries, by pursuing the potential of aluminum.

We are also continuously working on the innovation of manufacturing processes for aluminum itself. Needless to say, our goal is to steadily improve all processes, such as casting, hot rolling, cold rolling and finishing, by reviewing each process individually. We are also studying how to reduce costs by simplifying processes and lowering energy consumption.

The promotion of aluminum recycling is also a vital issue for reducing environmental load. At TAA, in the USA, which leads the way in this initiative, about 80% of the raw materials are supplied through recycling. This means that the company contributes to saving resources, as well as reducing raw material use and lowering energy costs. Going forward, we plan to aggressively push forward with our recycling efforts throughout the UACJ Group by introducing the recycling technologies and expertise regarding the recycling chain developed at TAA to other plants.

## **Promoting a Shared Vision and Strengthening Development of Human Resources as a Truly Global Company**

The business fields of the UACJ Group have undergone significant expansion since integration. The previously mentioned expansion of operations in Thailand and North America would not have materialized had it not been for having sufficient corporate strength to compete with major aluminum manufacturers around the world; and that we achieved through integration. Following integration, UACJ has ventured to challenge new business at the global scale, something that a majority of our employees had never experienced. In addition, as a result of our aggressive strategic investments in recent years, many new people have joined the UACJ Group, mainly in North America and Asia. As our businesses expand rapidly around the globe, it is not an easy job to manage each group company properly and fully draw out the capabilities of our human resources with all of their diversified values.

Accordingly, we came up with a clear vision for the UACJ Group after integration. As a part of this, we strive to create and ensure work environments that enable effective partnerships among people and organizations, beyond differences in nationalities and companies, so that each employee can demonstrate her/his full capacity. As a company grows and its business areas expand, the difficulty of this task increases. However, this is an inevitable issue that the UACJ Group must manage to become a truly global company. We have thus



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focused on it as a priority measure.

Now approximately four years since integration, I can see that the sharing of our vision has steadily progressed and disseminated throughout the group companies, in Japan and overseas. The cooperation among organizations and employees is producing fruit, but the goal has not yet been fully achieved. For instance, at UATH in Thailand, even though production came online not so long ago, operations are now almost all in the hands of local staff alone. Local employees are actively playing a major role in proposals for improvement. Our objective of a monthly production of 10,000 tons has been achieved. In 2019, when the third phase of investment begins, we should see even smoother, more efficient operations up and running.

I am sure that those who worked for Furukawa-Sky Aluminum Corporation and Sumitomo Light Metal Industries also developed their abilities during times of significant change, including the dramatic reorganization following management integration and the subsequent shift of our business focus towards growth regions and



fields. During that period, each of them had new experiences and learned new ways of thinking.

Instead of working at the same job for a long period of time, change, such as taking on a new assignment or working with new people or a new organization, opens up new opportunities for exponential growth. In the UACJ Group, we promote change deliberately with the objective of creating an environment where employees can improve their skills, discover their talents and consistently enhance their capabilities.

One such initiative is attempting to increase personnel exchanges globally. The exchange of opinions between engineers has already been lively among UACJ manufacturing bases, the Research and Development Division, and TAA in North America. We are hoping to extend this to the revitalization of personnel exchanges that include CUA, UWH and other subsidiaries. At UACJ, we believe that the aggressive overseas investment

# “ True Integration through Sharing and Alliances ”

### UACJ Group's Vision for the Future

#### Slogan

Maximize the possibilities of aluminum in ways that contribute to society and the environment

#### Goals

- To be a global company respected by all stakeholders, capable of coexistence and continuously evolving
- To be a global company that is appreciated and valued by customers worldwide
- To be a global company that establishes itself locally in each region and appropriately develops and supplies products suited to the characteristics of the local regions

completed to date cannot produce the intended effects without having worldwide exchanges and dispatching personnel. In order to facilitate this movement, we are currently constructing a “human resources bank” network that holds information as to what technologies, skills and work experiences are possessed by members of each overseas Group company.

Furthermore, if we are to become a truly global company, we must change the way we work. Although it is impossible to simply compare Japanese companies with their overseas counterparts as there are differences in some points, including division of duties, it is certain that there is still room for improvement in white-collar productivity in Japan. In the future, we will seek to reduce working hours and improve in productivity by examining specific tasks through comparisons with overseas subsidiaries and utilization of the latest information technologies, such as the Internet of Things (IoT) and artificial intelligence.

Strengthening corporate governance is another important managerial issue for a global corporate group. At UACJ, we have concentrated on increasing the responsibility of the Board of Directors to supervise management and hold Corporate Social Responsibility Committee meetings, as well as ensure thorough compliance and risk management. We will continue to create and maintain an environment that enables outside directors and auditors to discuss UACJ management more actively from various viewpoints by providing them more frequent opportunities for free discussions. Through these measures, we are pursuing the actualization of more effective governance.

### **Actively Implementing New Growth Strategies While Steadily Incorporating Benefits from Past Investments**

Entering the final year of our mid-term management plan, we are now formulating the next mid-term management plan, “Global Step II,” for fiscal 2018-2020. Aggressive growth measures are expected to continue under the new plan. At the same time, I believe that incorporating what the Group has gained so far from its investments will take us to the next growth stage. We will focus on automotive-related business in North America and increasing the profitability of operations at UATH. Domestically, as

## **Next Growth Stage Based on Experiences**

establishment of an optimal production network has more or less been completed, the next step will be to implement new growth strategies, such as bolstering the foundation of our business in automotive body sheet, for which demand is expected to grow, and introducing the UWH model to the Japanese market.

Another important issue is pursuing the synergies generated through business integration at higher levels. Since integration, business amalgamation domestically and overseas has been progressing smoothly. However, it seems that we are currently at the stage of “physical reaction,” where employees from the two integrated companies, and organizations and employees that have joined the UACJ Group through M&A, have blended in well and a harmonious state has been created. From now on, we encourage “chemical reactions,” which will be triggered by the cooperation of employees who have different technological and business backgrounds, through the aforementioned exchanges and personnel dispatch globally. It is hoped that this will create technological innovation and new business value.

The UACJ Group will continue on the path of becoming a major aluminum industry leader with a globally competitive edge by proactively and consistently responding to changes in the business environment.

Your continued guidance and support in the future is sincerely appreciated.