



**Miyuki Ishihara**

Representative Director  
& President

## **We will lay a foundation for sustainable growth by improving the Company's profitability and financial structure while continuing to implement our growth strategies.**

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### **Aiming to boost earnings and improve financial performance following a tough year on the profit front**

I have spoken with many employees, customers, shareholders and other stakeholders of the UACJ Group since being appointed as president about one year ago. In that process, I learned about their high expectations for the Group and renewed my appreciation for the tremendous responsibility that comes with leading our business activities. To meet their expectations, all members of the Group have been pushing ahead with our three-year mid-term management plan, guided by our future vision of maximizing the possibilities of aluminum in ways that contribute to society and the environment.

In fiscal 2018, the plan's first year, we boosted production capacity to meet growing demand in the North American and Asian markets. As a result, consolidated net sales increased year on year, supported by substantial sales growth outside Japan. In the second half of the fiscal year, however, China's economy decelerated as its trade war with the United States heated up, and the markets for IT-related devices and semiconductors deteriorated. Due to these sudden changes in the market, demand for some of our mainstay products dropped sharply, particularly aluminum thick plates and materials for IT-related devices and equipment. Moreover, inventory valuations worsened, energy costs spiraled upward, and the launch of new products led to lower yields than expected. As a result, the Company posted steep declines in operating income, ordinary income, and net income attributable to owners of the parent.

Undeterred by these results, we re-examined the Group's business portfolio and shifted our focus to improving its financial structure and making operations more profitable as soon as possible, particularly in Japan and Thailand. While aiming to continue steadily expanding in growth markets and industries, the Group is working to establish a business model that enables higher profitability and solutions beyond the manufacture and supply of aluminum products.

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### **Streamlining operations to optimize the Group's business portfolio**

To get profits back on the growth track, restructuring our businesses in Japan is essential. The domestic market is projected to shrink in the near and distant future as the country's population continues to age at a rapid pace. We recognized the need to respond to this trend by drastically restructuring operations in Japan at the time of UACJ's establishment through a merger in 2013. After that, however, restructuring plans were sidelined as we turned our attention to new opportunities in the domestic market, including the appearance of bottle-shaped cans and other new aluminum products as well as rising demand for aluminum auto parts. Nevertheless, we must proceed with restructuring, including mergers of factories, to improve profitability and bolster the competitiveness of the Group as a whole. Therefore, we believe it is time to begin optimizing the Group's manufacturing and sales network in preparation for the future.

Under the current mid-term management plan, one of our major policies is to improve capital efficiency. Accordingly, in fiscal 2018, we decided to terminate our business partnership with Choil Aluminum Co., Ltd., sell off UACJ's shares of Sumikei-Nikkei Engineering Co., Ltd., and dissolve UACJ's joint-venture company, Constellium-UACJ ABS LLC, which had yet to post profits. Moreover, we decided to sell off the Group's copper tubing business in June 2019 with the goal of concentrating operational resources in its core aluminum products business. As a step in that direction, we decided to construct a new factory in China to manufacture battery capacitor foil, for which demand is projected to rise in the country's auto parts market. UACJ also formed a business alliance with two subsidiaries of China-based CITIC Group Corporation Ltd., with an agreement to establish a joint-venture firm in China's automotive parts industry. We intend to continue streamlining operations with a focus on the aluminum products business in order to optimize the Group's business portfolio going forward, while using return on invested capital\* as an

# Message from the President

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indicator of capital efficiency in each business.

\* Return on invested capital is calculated as operating income (before income taxes) ÷ (shareholders' equity + interest bearing debt – cash and cash equivalents), using the average of the amounts at the beginning and end of the fiscal year

## Boosting production capacity to meet growing demand for beverage can stock in Asia and North America

By restructuring businesses and improving capital efficiency, we are laying the foundations for more agile and robust operations that can withstand changes in the market. At the same time, we intend to boost sales by effectively capturing demand for the Group's products in growing industries, particularly automotive parts and other transport-related industries, and growing markets in Asia and North America.

With respect to these growth strategies, many inquiries from stakeholders concern UACJ (Thailand) Co., Ltd., UACJ's manufacturing and sales subsidiary supplying products to the Asian market. The company is making smooth progress with the construction of a third phase of new facilities at its manufacturing plant, Rayong Works. Some of these new

facilities are already operating and started shipping products from the end of June 2019. When all of the new production lines are fully operating, the plant's production capacity of flat-rolled aluminum will total about 320,000 tons annually—the largest in Asia. This expanded capacity will allow the company to meet strong demand for flat-rolled aluminum in Asia as well as Oceania.

In the last few years, demand for flat-rolled aluminum can stock has risen rapidly in Southeast Asia, reflecting the region's economic growth. Consumption of refrigerated canned drinks has recently become entrenched in countries throughout the region, and since beverages can be chilled more quickly in aluminum cans than in steel cans, we believe there is still much more demand to capture going forward. Indeed, besides markets in Asia and Oceania, we are planning to tap demand in new growth markets in Africa and South America in the future.

In the North American market, the gap between supply and demand for aluminum can stock tightened in recent years because flat-rolled aluminum manufacturers have been shifting production to automotive panels and parts in response to steeply rising demand from the auto industry. In that context, Tri-Arrows Aluminum Inc. has been expanding production capacity at its main manufacturing plant, Logan Mill, in an effort to ensure a stable supply of flat-rolled

## Recent history of UACJ's business strategies



aluminum for can stock. Through this expansion, we aim to boost capacity to about 400,000 tons in fiscal 2020, of which 350,000 tons of flat-rolled aluminum will be produced for can stock and 50,000 tons for automotive parts. A new casting line has already begun operating and a cold rolling line is scheduled to start up in the autumn of 2019. Meanwhile, the company will use the surplus capacity of its casting line to manufacture and sell aluminum slabs. While monitoring the supply and demand situation, we intend to flexibly meet demand in North America by making use of the Group's other manufacturing facilities in Japan and Thailand when necessary.

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## Offering even better solutions with a business model designed to create extra value for customers

To raise corporate value over the medium and long terms, UACJ will need to create a business model designed not only for boosting sales but also increasing profitability through the provision of high-value-added products and solutions. Therefore, with a view to offer even better solutions to customers in the auto industry, which we have designated as a growth industry, we established our Automotive Parts Business Division in April 2019 as an international organization spanning across the UACJ Group. Working together with the Group's sales departments, manufacturing plants and R&D centers, the new division will strive to meet sophisticated and challenging requests for aluminum automotive parts from customers with solutions spanning from the planning and design stages through to manufacturing, sales, and quality assurance.

In the same way, we intend to enhance our solutions in other businesses, as well, in order to raise the value of the UACJ Group. That value can be summed up as the Group's expertise in aluminum and its ability to maximize the material's potential through advanced technologies and know-how. For example, we can develop new materials, devise precision-machining and surface-finishing processes, and assure high quality for manufacturers of next-generation batteries, transport equipment, electronic components and machinery, and other types of products. By providing such wide-spanning solutions, we are able to help those customers innovate.

To speed up the provision of such solutions, we are now in the process of expanding the Group's global R&D and technical service network. In fiscal 2018, we opened the Group's first R&D facilities outside Japan, initially in the United



States and then in Thailand. These new facilities are focusing on developing new technologies and products while offering prompt and meticulous technical services to customers in each respective country. We also renovated UACJ's R&D Center in Japan in February 2019. The center now includes open innovation spaces for its researchers to collaborate with customers and the Company's manufacturing plants in projects aimed at creating new value.

Ultimately, these solutions will be provided to customers by our employees at each of the UACJ Group's workplaces. Therefore, we are stepping up training programs to equip sales and other personnel with the skills needed to directly deal with customers and understand their specific requirements and concerns, while making sure to pass down a broad range of skills to new generations of employees so that the Group's core technologies and expertise continue to be refined in the future.

An extremely strong and lightweight material, aluminum is increasingly being adopted by the auto industry as a means to reduce vehicle weight. More recently, amid growing concerns of ocean plastic pollution, the bottling and packaging industries are recognizing aluminum as an excellent material for beverage cans, detergent canisters and other types of containers, particularly since it is easy to recycle. By promoting the outstanding properties of aluminum and actively creating new applications for this material, we are confident that it will be used in a wider range of industries and contribute to a more sustainable society. Looking forward, the UACJ Group will aim for continuous growth while working together with customers to bring valuable products and economic benefits to communities around the world. We ask stakeholders for their continued support of these endeavors.