



## **UACJ Corporation**

ESG Briefing (Second Half)

December 7, 2023

## Event Summary

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[Company Name]	UACJ Corporation	
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[Venue]	Webcast	
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[Participants]		
[Number of Speakers]	6	
	Miyuki Ishihara	Representative Director, President
	Teruo Kawashima	Director, Executive Vice President
	Shinji Tanaka	Chief Executive, Corporate Sustainability Division; Vice Chief Executive, Flat Rolled Products Division (manufacturing division)
	Akinori Yamaguchi	Director, Managing Executive Officer
	Seiichi Hirano	Senior Managing Executive Officer, Chief Executive, Business Support Division
	Kaoru Ueda	Chief Executive, Marketing & Technology Division, Senior Managing Executive Officer
		General Manager, IR, Finance Department
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	Yuji Matsumoto	Nomura Securities
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Yu Shirakawa  
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\*Analysts that SCRIPTS Asia was able to identify from the audio who spoke during Q&A or whose questions were read by moderator/company representatives.

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## Question & Answer

**Ueda [M]:** We will now take questions from everyone. Mr. Yamaguchi from SMBC Nikko Securities, please proceed with your question.

### Decarbonization in the production process

Converting the production sites of processed products to 100% renewable energy, providing customers with an option for reducing CO<sub>2</sub>

#### ☀ Production sites running on 100% renewable power (17 sites in total)

- UACJ Extrusion Nagoya Corporation (Anjo Works)
- UACJ Extrusion Gunma Corporation
- UACJ Extrusion Shiga Corporation
- UACJ Foundry & Forging Corporation (Foundry & Forging Works, Foundry & Forging Second Works)
- UACJ Metal Components Corporation (Sendai Works, Narita Works, Ena Works, Shiga Works, Hiroshima Works)
- NALCO Koriyama Co., Ltd.
- UACJ Aluminum Center Corporation (Utsunomiya Color Aluminum Works, Shiga Works, Nara Works)
- Izumi Metal Corporation
- KAMAKURA INDUSTRY COMPANY LIMITED
- UACJ Marketing & Processing Corporation

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- ☀ Approx. 220 GWh of electricity will be purchased annually from 100% renewable energy sources (starting from April 2023)
- ☀ The UACJ Group's 17 major production sites in Japan will be run on 100% renewable power, with zero scope 2 CO<sub>2</sub> emissions
- ☀ CO<sub>2</sub> emissions will be reduced by an estimated 100,000 tons\*  
⇒ Equivalent to approx. 20% of the UACJ Group's scope 2 CO<sub>2</sub> emissions

\*Considered in terms of general household use, this is equivalent to about 54,000 households

By implementing renewable power at the production sites of the products closest to finished products, we can also contribute to reducing customers' scope 3 CO<sub>2</sub> emissions

**Atsushi Yamaguchi [Q]:** Thank you for your presentation today. I am Yamaguchi from SMBC Nikko Securities.

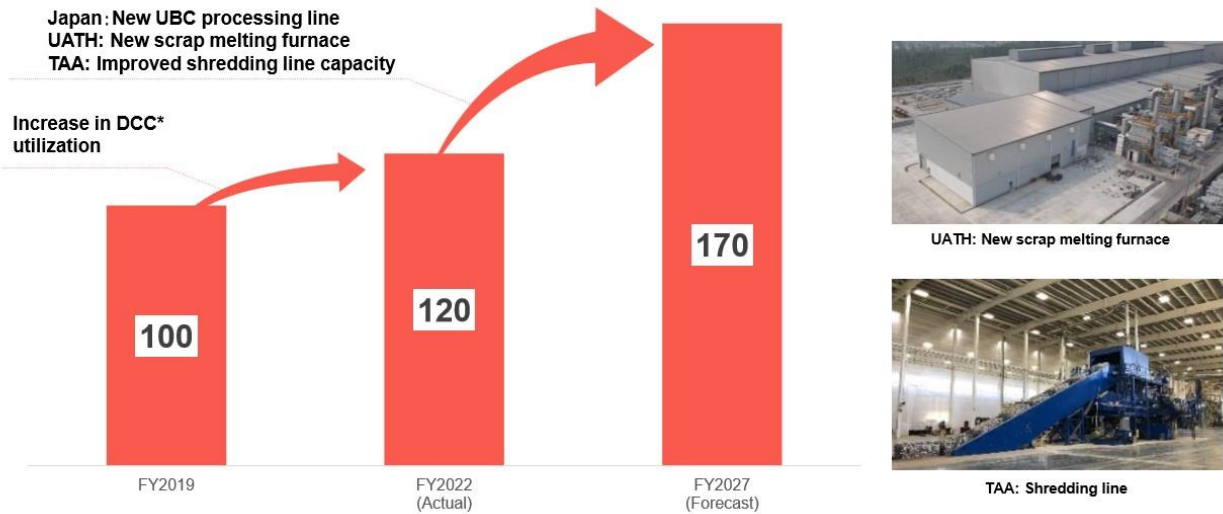
My question is about page 11 of Mr. Tanaka's presentation materials, regarding whether the implementation of renewable energy is actually as complete as presented. Is the implementation of renewable energy already fully completed, or is it still in progress?

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## Amount of Used Beverage Can (UBC) Utilized as Raw Materials



Actual UBC utilization in Japan, UATH, and TAA in FY2019 for each year as 100

© UACJ Corporation. All rights reserved. \*DCC UBCs are crushed, sorted, roasted, etc., and the paint is skipped. Delacquered Can Chip

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## UACJ Recycling Rate Definition and Target

We have defined the UACJ Recycling Rate<sup>\*1</sup> as an indicator for the Group's aluminum resource circulation. We have set a clear target and are working group-wide to realize a circular economy.

<sup>\*1</sup> The rate indicates a target for in-house resource circulation activities and is not an indicator for each individual product.

### ● Calculation of the UACJ Recycling Rate

$$\frac{\text{Circulated aluminum amount}}{\text{Amount charged into the melting furnace}} \times 100$$

The circulated aluminum amount is the combined total of:

- Scrap generated from all in-house processes
- PIR Scrap<sup>\*2</sup>
- PCR Scrap<sup>\*3</sup>

The amount charged into the melting furnace is the combined total of:

- Virgin aluminum, metal additives
- Scrap generated from all in-house processes
- PIR scrap
- PCR scrap

### ● UACJ Recycling Rate Target<sup>\*1\*4</sup>



<sup>\*1</sup> Excludes pure aluminum materials (1000 and 8000 series)

<sup>\*2</sup> Post-industrial recycled scrap: scrap generated during the material processing stage of production.

<sup>\*3</sup> Post-consumer recycled scrap: scrap originating from end-of-life products.

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Additionally, regarding pages 19 and 20 of the materials, could you provide the latest update on overseas sites, UATH and TAA in the US?

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## Environmentally Friendly Aluminum Can Development with Toyo Seikan : Progress

### Next-Generation Beverage Can End with Reduced Environmental Impact (released December 4, 2023)



(excerpt of release)

Developed **EcoEnd**, a beverage can end that reduces greenhouse gas ("GHG") emissions generated in the manufacturing process by approximately 40%, in collaboration with Toyo Seikan, Ltd.

Compared to current beverage can ends, EcoEnd reduces GHG emissions by approximately 13,000 tons\*1 per billion cans. In addition, **if all current beverage can ends sold by Toyo Seikan in Japan were replaced with EcoEnd**, GHG emissions would be reduced by approximately 140,000 tons\*2 per year.

It has been customary to use a large amount of new metal for beverage can ends in order to ensure a certain level of quality, such as workability and strength of the material. By combining UACJ's material manufacturing technology and Toyo Seikan's end molding technology, **we have developed a next-generation end that can provide the same quality and performance as existing ends even when the amount of new metal used is reduced.**

Release(japanese only) <https://www.uacj.co.jp/press/20231204.htm>

\*1 Toyo Seikan research

\*2 Calculated based on GHG reductions per "EcoEnd" and Toyo Seikan's FY2019 manufacturing results of ends for SQT (stay-on tab) cans with current specifications.

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Also, on page eight of the marketing materials, there was a mention of EcoEnd. Will almost all of your products eventually adopt this approach? As a simple question, it might be different if branding is successfully done, but as consumers, we can't tell if a can is eco-friendly or not. It seems more like a B2B issue, where the focus is on convincing the business partners.

Could you share with us how this affects the selling price and what percentage of your products are currently under this scheme?

Finally, is it correct to understand that ALmitas+ is not just a brand that reduces the use of virgin aluminum so that it can be sold by mass balance, but also a brand that aims to increase the awareness of aluminum? Steel manufacturers are trying to name their products that are sold by mass balance, but what is your strategy in this area? Please tell me the details.

**Tanaka [A]:** Regarding the material on page 11, as per your question, 20% of the UACJ Group's energy, corresponding to CO2 Scope 2, has been transitioned to renewable energy. As a result, 17 domestic group company sites have now shifted to using electricity derived from renewable sources. This was completed in April.

As for page 19, it indicates our intention to increase the utilization of UBC. As written in the top left of the material, new processing facilities and capacity upgrades are underway in Japan, Thailand, and North America. In Thailand, the new facilities will be operational in FY2024, and in Japan and North America, they are expected to start in FY2026 or later. Accordingly, by FY2027, the figures will reflect the scenario depicted here.

**Ishihara [A]:** Specifically, in Thailand, we are installing a new scrap melting furnace, and in North America, we are expanding the shredder line before the scrap melting furnace.

**Tanaka [A]:** The recycling rate is defined by the formula shown on page 20 of my presentation materials. We calculate the recycling rate at each manufacturing site and set target values. However, the overall goal is to effectively utilize aluminum across the entire group, so it's important to understand the overall quantity and recycling rate.

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**Ishihara [A]:** Regarding the third question, which concerns EcoEnd, as introduced by Hirano, it's about how we assign value and sell it, or whether there are already some achievements in this area.

**Hirano [A]:** I will respond regarding EcoEnd. The reduction of environmental impact is its primary value. You asked about how it is being implemented. Actually, can manufacturers make cans using our sheet stocks, which are then provided to beverage companies. Therefore, the key point is how we progress with beverage manufacturers, and we are currently coordinating with them on this matter. As of now, these products have not yet entered the market. When they do, we recognize that they will have significant environmental value, and we plan to promote them accordingly.

**Ishihara [M]:** The fourth question was about the in-branding strategy of ALmitas+ and its relationship with mass balance and other brands.

**Hirano [A]:** Firstly, we believe that increasing the recognition of aluminum is the primary issue of ALmitas+. Additionally, our company has been involved in various brands, such as UACJ-SMART, and we are considering using ALmitas+ as a higher concept over UACJ-SMART. Therefore, we plan to incorporate aspects such as mass balance, which you mentioned earlier, into our approach.

**Ishihara [A]:** ALmitas+ itself is a strategy to expand into the realm of 'material + alpha.' As you inquired earlier, the strategy involves converting added value into price and offering it as an aluminum brand. This approach aims to enhance our value, similar to the initiatives in the steel industry. It should be understood as a new endeavor for aluminum in the future.

**Ueda [M]:** Next, I would like to invite Mr. Matsumoto from Nomura Securities to ask your question.

**Matsumoto [Q]:** I am Matsumoto from Nomura Securities. Thank you.

My first point concerns the increased costs associated with procuring more renewable energy and the investment required to raise the recycling rate. I'm wondering if these initiatives can lead to economic benefits, as it seems they might not unless the volume increases. Can you please explain this aspect?

Regarding the last explanation by Mr. Yamaguchi about linking human capital to finance, I think it's very important, yet it seems challenging. I'm concerned that short-term perspectives might lead to misinterpretations. Could you elaborate more on your approach?

**Tanaka [A]:** As you pointed out, introducing renewable energy and increasing the recycling rate certainly incurs certain costs. However, by proactively adopting these measures, we make it easier for customers who want to use such sustainable practices to choose us. This approach significantly enhances the value of aluminum usage. Initially, we are willing to bear these costs to pioneer in this area, as we believe it will directly lead to long-term corporate value enhancement. That's why we are keen on pursuing these initiatives.

**Ishihara [A]:** From the perspective of volume and profit margin, contributing to customers in the 'material + alpha' domain means that it's not just about increasing the volume of materials, but increasing the sales of these products will bring economic value. As Tanaka mentioned earlier, by becoming a business site that customers find easy to choose, we naturally bring benefits to those customers.

The next question is about linking human capital to finance presented by Yamaguchi, and the request for more explanation on our approach.

**Akinori Yamaguchi [A]:** As Mr. Matsumoto pointed out, we also perceive this as a challenging task. However, if our efforts do not ultimately lead to profits, it would indicate that something is amiss. While we expect some challenges, we are committed to various initiatives in this regard.

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In our current engagement efforts, we sometimes hear, “I’ve worked hard, but it hasn’t led to results.” We think it would be beneficial to show in a tangible way how their efforts are indeed connected to results and profits.

Moreover, we are collaborating with university professors and incorporating diverse perspectives. We aim to proceed without rushing, carefully evaluating each step to ensure our efforts lead to meaningful outcomes, rather than hasty and impractical results.

**Kawashima [A]:** While I hesitate to mention names here, there are already several companies that have quantified human capital. As you said, establishing a causal relationship might be difficult, but there is likely a correlation. These companies are accumulating large datasets in their approach.

We are also conducting engagement surveys, and by analyzing this data, we believe it will ultimately enhance the corporate value of the UACJ Group. Although it may take some time, universities possess extensive data, and we are currently advancing our efforts with their insights.

**Ueda [M]:** Next, I would like to ask Mr. Goroh from UBS Corporation to please pose your question.

**Goroh [Q]:** I am Goroh from UBS Securities. Thank you for this opportunity. First, I would like to ask about the recycling rate at UACJ. You aim to increase it from 65% in FY2019 to 80%. I wonder if there will be variations in the degree of effort at each location, particularly overseas, where recycling might not always be easy.

For example, could you provide the actual figures for 2019 and the target for 2030 for Japan, Thailand, and America? Additionally, I would like to know about the social infrastructure needed to achieve these targets, such as how to increase the recycling rate in the American market, or what’s feasible in Southeast Asia.

Another point I have is regarding the use of recycled metal. I think there might be some technical challenges. We’ve already discussed EcoEnd, but are there any technical hurdles that need to be overcome by 2030? Also, depending on the product type and its intended market, such as cans, automobiles, or electronics, there might be differences in the level of difficulty and expectations for progress. Could you elaborate on these challenges and the progress you expect?

Thirdly, regarding your Scope 3 reduction plans and product introductions, it seems they are based on the needs of your users and involve collaborative development. We’ve also heard about closed-loop systems before. If these are committed arrangements with specific users, I’m concerned it might make it difficult to apply these technologies more broadly. Can you explain how you plan to transition these user-specific technologies into a framework that enhances your corporate value more broadly?

I would like to hear more about how you face the customer’s needs, and whether you adopt a closed or open stance in your approach.

**Tanaka [A]:** Regarding the goal of increasing the recycling rate from 65% to 80% at each site, as you pointed out, the types of products and their applications vary significantly between manufacturing sites, and accordingly, the recycling rates differ greatly by application.

Therefore, we are looking at the target across all relevant sites, making efficient use of scrap, and considering inter-site transfers to achieve the 80% target from 65%. Each site does have its specific target, although we haven’t disclosed these publicly. We are working towards these site-specific targets.

As for international efforts, increasing the recycling rate poses a significant challenge. In Southeast Asia, for instance, we have previously mentioned our initiative in Thailand called the “Can to Can Journey,” which involves the Thai government in creating a recycling system. Similarly, in neighboring Vietnam, we are seeing

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the emergence of efforts to increase recycling rates, involving their government, and we have already started activities in this regard.

In North America, although there are challenges, the shift in consumer consciousness from PET to aluminum cans has helped. With the American Recycling Association, and considering aluminum's superior recyclability and environmental friendliness, we are promoting recycling. The president of North America TAA has also become the chairman of the Aluminum Association in the US, taking a leading role in these efforts.

**Goroh [Q]:** So, in that sense, for sites outside Japan, are you suggesting that it's feasible to undertake similar efforts to measure and achieve recycling rate targets in the long term?

**Tanaka [A]:** That is something we are considering for the future.

**Ishihara [A]:** In North America, we have partners, so the approach, including public disclosures, will be determined through discussions with them.

**Tanaka [A]:** By the way, the total UBC volume on page 19 includes combined figures from all three sites: Japan, UATH, and TAA.

**Ishihara [A]:** Gradually, we will work on quantifying these figures, including those from overseas.

The second question was about the technical challenges in utilizing recycled metal, and how it relates to the diverse markets we serve.

**Hirano [A]:** I'd like to mention three technical challenges regarding the first part of your first question. First, in collaboration with our current customers, we are actively working to use more recycled materials in alloys, or to develop new alloys that can incorporate recycled materials. This effort will visibly progress and contribute to increasing our recycling rate, as Tanaka introduced.

Second, the challenge is in how to collect and effectively use recycled materials. This relates to our earlier discussion about the types of recycled materials used in creating alloys.

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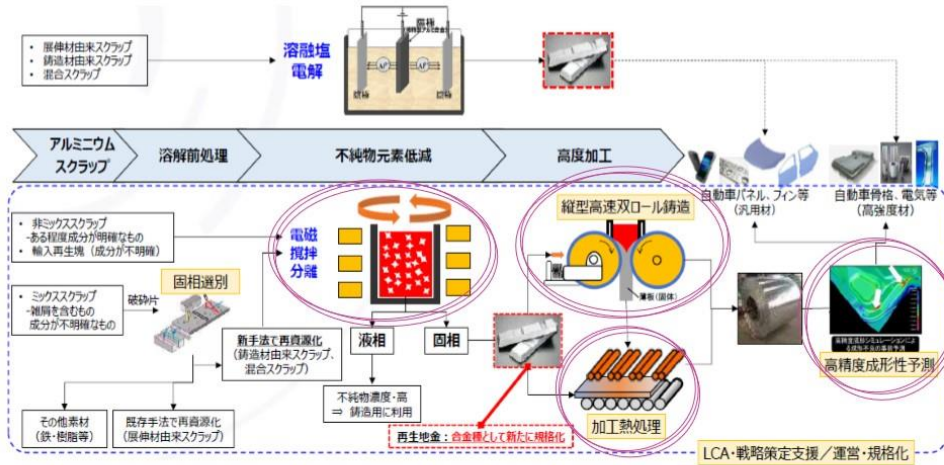
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## Participation in National Projects and Development of UACJ Technology

### Aiming to reduce environmental impact in a recycling-oriented society

Participated in the Advanced Resource Recycling System for Aluminum Materials project.



Source: New Energy and Industrial Technology Development Organization's "Development of advanced circulation technology for aluminum materials" (Interim Evaluation), June 22, 2023.

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The third point, as shown on page 10 of my presentation, concerns the technology to reduce impurities in materials, even when they are significantly contaminated or consist of various mixed alloys. Developing such technology will enable us to use materials more effectively. These three points are what we are currently focusing on.

Regarding your other question about whether our technological development should be closed or open, we often start with a closed approach. However, depending on the type of product, such as can materials, automotive materials, or heat exchangers for air conditioners, we might initially pursue a closed approach. But ultimately, we believe that moving towards an open approach is fundamental.

**Ishihara [A]:** On the topic of deploying recycled metal across diverse applications, given the wide variety of alloys, we, along with our industry, are working not just to meet specific applications but also to transform a large number of alloys into more recyclable materials. By promoting the adoption of these alloys among customers, we believe it will contribute to global recyclability. Initiatives like EcoEnd, which I mentioned earlier, are part of this global effort, and we believe they will play a significant role in this regard.

As Hirano also responded to the third point, in terms of scalability, closed systems tend to evolve into open ones. For example, a product developed with a particular automaker can be adapted and applied to other automakers. Therefore, it's important to understand that if we consider everything as closed, it limits the volume. Since there is a consensus on increasing volume and using the same alloys, we are negotiating with our customers to adopt an open approach.

**Ueda [M]:** Thank you for your questions. Now, I'd like to invite Mr. Shirakawa from Morgan Stanley MUFG Securities to ask your question.

**Shirakawa [Q]:** Hello, I'm Shirakawa from Morgan Stanley Securities. Thank you. I have three questions to ask.

The first one is about renewable energy power or the introduction of renewable energy fuels. I believe that for your company, the cost of renewable energy can be automatically passed on to the product price through a formula. However, I'd like to confirm how this is being handled for renewable energy specifically.

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Additionally, you mentioned earlier that initially there will be a cost borne upfront, but without a clear timeline for profitability, there might be concerns from outside observers. Could you please tell us about the timeline you envisage for increasing inquiries about eco-friendly, green products and when you expect them to become profitable?

My second question relates to the presentation materials, where you introduced a 100% recycled aluminum shelf in collaboration with MUJI. Given MUJI's shift from PET bottles to aluminum cans, I perceive a high compatibility with your company. I wonder if there's any specific business model being developed with MUJI, or if these instances, like the switch from PET bottles to aluminum cans and the aluminum shelf, are just coincidental. If there's any particular business relationship with MUJI, please share it with us.

My third question is about human resources. Given your company operates in a tri-polar global structure, the recruitment and development of globally oriented talents, both domestically and internationally, is crucial. Do you have enough talent for further growth, or are there any challenges or initiatives in talent development that you are currently undertaking?

**Tanaka [A]:** First, regarding the cost increase due to the introduction of renewable energy, it is not included in our price formula.

As for the timeline for future developments, it's challenging to specify a precise date for certain actions. We need to adapt to the demands of our customers and the changing needs of society, and decide on further renewable energy adoption in consultation with each customer.

Regarding a specific timeline, while it's certainly possible to achieve a certain percentage by a specific date if we are willing to incur the costs, this also leads to a price increase. Whether this aligns with our customers' needs is something that needs to be discussed individually. Therefore, at this point, it's difficult to provide a specific answer about what we will do by when.

**Ishihara [A]:** The increase in costs due to using renewable energy should be recovered through volume or profitability. Our efforts also focus on reducing the amount we use, addressing Scope 1 and 2 emissions. Promoting energy-saving measures while adopting renewable energy is a crucial task for our company. We will consider these aspects in our medium to long-term plans, including our fourth medium-term plan, and think about how this will translate into future profitability.

As for the second question, we have developed a very good relationship with MUJI. Regarding our connection, especially concerning products with high recycled content that they have inquired about, Hirano will provide more details about the background and future developments.

**Hirano [A]:** As Ishihara mentioned, we established a good relationship with MUJI. While we had some interaction with them in the past, it wasn't as strong as it is now.

The current collaboration started with an inquiry on our website, which was handled by a member of our newly established marketing department. They coordinated with the department responsible for producing and processing sheets, and it resulted in a product developed in just a few months. This experience has reinforced the importance of utilizing our website, and we plan to continue strengthening our marketing activities in this area.

Additionally, we aim to maintain and enhance our relationship with MUJI through various interactions.

**Ishihara [A]:** We have built a solid relationship at the management level, and we take pride in being recognized as the go-to company for aluminum. There are many areas in various work environments where the use of

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aluminum can reduce the burden, and many companies want to promote their use of high-recycling-rate, low-environmental-impact materials. We feel that our good relationship has expanded in this regard.

Regarding your third question about global talent recruitment and development and whether we have enough talent in these areas, I'll let Yamaguchi answer that.

**Akinori Yamaguchi [A]:** In short, there's a lot more we need to do regarding talent development, but let me introduce some of our ongoing efforts. Regarding the ability of our domestic talent to operate globally, we have a trainee system in place. We send employees for training or, even if they're not trainees, we dispatch them overseas as part of their developmental journey.

Secondly, Thailand is a major base for us, and developing talent there is crucial. We had a program where future leaders from Thailand were brought to Japan for six-month training sessions. This was paused due to COVID-19 but was resumed last year. We intend to continue this initiative.

Thirdly, we have a succession planning program in place domestically, which we are also implementing at our overseas locations. For example, in UATH, we delve into what kind of talent we have and how we intend to develop them, and actively engage in these discussions.

Finally, as part of our regular management retreats, where we discuss various issues, this year we invited the president of TAA in America. He gave several presentations, which provided us with different perspectives and progressions, particularly useful for our discussions on talent development.

Including these management-level exchanges, we plan to deepen our discussions on how to effectively utilize global talent and will continue to address this as a strategic priority.

**Ishihara [A]:** I'd like to add a bit more. As mentioned earlier, Henry Gordinier from North America's TAA participated in our training program. He reported that in terms of talent management, focusing on Diversity, Equity, and Inclusion or DE&I, which we also touched upon today as "De-Ai", he emphasizes the concept of 'Ikigai' or life's purpose in his management philosophy.

He refers to it as the "Ikigai Project," fostering employees' development and managing the team with 'Ikigai' as the central theme of their business operations. The inclusion of global talent in our management has allowed us to have discussions from different perspectives.

We expect similar developments to emerge, including in our Thai operations. Additionally, David Cooper, the president of UWH in North America, is very enthusiastic. The same can be said for Mr. Kočí from UACJ Extrusion Czech s.r.o. We intend to continue increasing such motivated talent in our team.

**Ueda [M]:** We have received many questions, but as we are approaching the end of our scheduled time, I would like to take one last question. I invite Mr. Ozaki from Daiwa Securities to please proceed with your question.

**Ozaki [Q]:** I am Ozaki from Daiwa Securities.

First, I would like to clarify the definition of the recycling rate mentioned on page 20 of Mr. Tanaka's materials. According to note 4, it seems that Thailand is included, so I'd like to confirm this definition again.

Additionally, as the recycling rate increases in the future, I believe there could be benefits from the use of lower-cost raw materials, for example, at American sites. Could you explain how you see the impact of this on profitability, including whether the cost increase can be offset by the benefits of lower-cost raw materials?

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My second point concerns the investment in facilities in Thailand to increase the recycling rate. I have an impression that the scrap collection system isn't fully established there. Are there any challenges in terms of scrap collection, and could you clarify this aspect?

**Tanaka [A]:** The note in Comment 4 is correct. As stated there, it includes UATH.

Regarding the scrap collection system in Thailand, the Rayong manufacturing plant is a large-scale facility, and its production volume exceeds the domestic demand in Thailand. It exports to various regions, including Southeast Asia, North America, and Australia.

From this perspective, relying solely on recycling within Thailand won't be sufficient for scrap collection. We are currently working on securing UBC or used beverage cans throughout the Southeast Asian region. We believe that, when viewed across the entire region, we can secure the volume of UBC necessary to meet our targets.

On the other hand, predicting the future impact on costs is challenging.

Some suggest that scrap prices will inevitably rise to the level of primary metal, while others believe the current state will maintain for some time. Therefore, it's hard to foresee the future trend of scrap prices.

However, once things start moving, we anticipate a certain trend to emerge, and we are closely monitoring this. Therefore, once it begins, we intend to think carefully about how to respond.

**Ishihara [A]:** The establishment of UATH in Thailand has created a system for recycling. Previously, UBC materials from Southeast Asia were exported outside the region. However, with the establishment of melting and casting facilities in Thailand, a loop has been created where materials collected within Thailand can be recycled and turned back into products, such as can materials. This loop will now be utilized more effectively. Starting with Thailand, similar initiatives have become feasible in Vietnam with national support.

Regarding the perception that scrap is cheap, I don't entirely agree. While scrap might be cheaper when it exists in its raw form, it can't be used as is in place of primary metal, as Hirano showed on page 10 of his materials. Processing scrap—melting it, sorting it—incurs costs. Our collaboration with Yamaichi Metal is focused on this processing stage.

Therefore, when compared to primary metal, the value in using scrap lies in reducing these processing costs. I hope everybody will understand that scrap and primary metal are not the same and appreciate the technical value in efficiently processing scrap.

**Ueda [M]:** Thank you for your questions. With this, we conclude the last question for today's session. For any further inquiries, please contact our Investor Relations department. This concludes our ESG briefing. We will continue to strive to meet the expectations of our stakeholders, including our shareholders. We appreciate your continued support and constructive feedback. Thank you for joining us today.

[END]

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