

Risk identification and control

The UACJ Group has been carrying out risk management under the direction of its CSR Committee, which oversees the management of risks that could seriously affect the Group's operations and formulates appropriate countermeasures. Members of the committee include the president, who serves as chair, and all executive officers of UACJ Corporation, as well as the presidents of the Company's main subsidiaries. Under the committee's leadership, each group company has been managing risks related to the environment, occupational health and safety, product quality, information security, export controls, and so on, in accordance with relevant group-wide rules and its own respective rules. Likewise, business divisions have been managing risks that are pertinent to their respective operations.

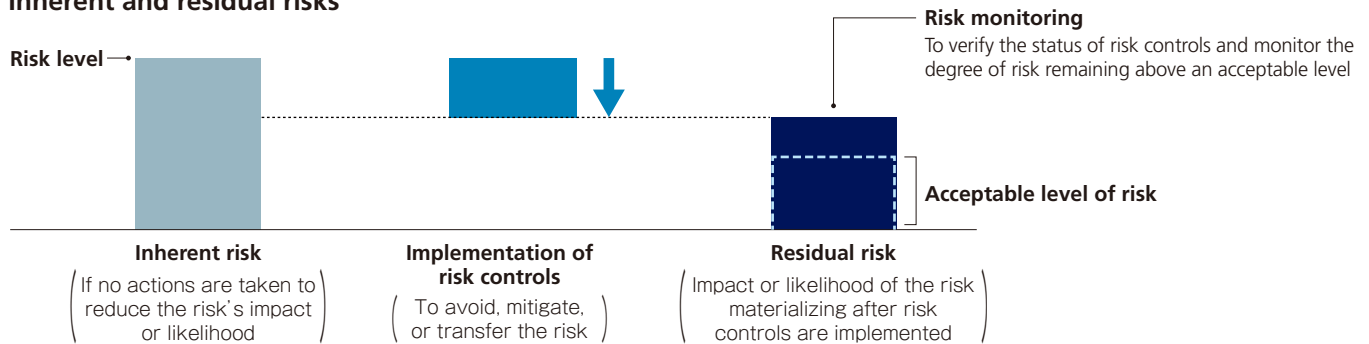
In fiscal 2019, ended March 31, 2020, a dedicated risk management working group was set up in the Company's Legal Affairs Department to conduct a group-wide risk assessment based on uniform criteria, initiate a plan-do-check-act (PDCA) cycle, and put forward initiatives for improving the Group's risk management. The Company transferred the working group to its Corporate Strategy Division in April 2020 to integrate these risk management activities into strategic

planning, with a view to more effectively manage risks that could affect its management plans.

The working group identified 138 risks that could potentially interfere with the achievement of business plans. To assess the importance of each of those risks for the Group as a whole, it carried out a survey of managers and departments handling operations and corporate functions, and assessed the level of residual risks (see the chart, below) according to uniform criteria, specifically the potential impact and likelihood of risks as well as their countermeasures. Among the risks, those that involved the possibility of fires and explosions, information security, and other important matters were designated as priority risks, and an executive officer was appointed to take responsibility for the group-wide management of such risks.

Through this process, UACJ accurately identified risks that could seriously impact the Group's business activities and has taken steps to respond to those risks should they materialize. Furthermore, the entire UACJ Group is currently implementing a PDCA cycle in an effort to continually mitigate these risks going forward.

Inherent and residual risks



Improving risk management practices

As explained, above, the UACJ Group began taking steps to strengthen its risk management in fiscal 2019. Among those efforts, surveys and assessments were carried out to verify whether risk management was sufficiently understood and widespread among employees and managers throughout the Group. Based on the findings, improving risk management practices were designated as an important task for the entire Group in fiscal 2020. Therefore, to further integrate risk management into everyday business activities, the Group has been stepping up its management of priority risks while pursuing the following objectives.

Measures for improving risk management

1. Raising risk literacy

In the process of identifying and controlling risks, UACJ's management has recognized the need to raise awareness of risks among all employees and have each of the Group's organizations take ownership of risk management. Therefore, it has been explaining the importance of discerning, reporting on and sharing information about risks to employees, appointing personnel to take charge of risk management in every division and business department, and implementing important risk countermeasures, such as business continuity management. The Company has also begun holding workshops about important risks for relevant managers in various workplaces.

2. Devising risk-conscious business strategies

UACJ's management has been giving more consideration to risks when deliberating on its latest mid- to long-term business strategies to better ensure their successful realization. It has also integrated risk control objectives in important policies and tasks, and deployed backtracking in group-wide mid-term action plans while taking account of megatrends and changes in the operating environment, including both risks and opportunities. By taking these steps, the Company is formulating more risk-conscious business strategies than ever before.

Disclaimer regarding the potentially significant impact of risks on investment decisions

The following risks are considered by the UACJ Group's management as potentially having a significant impact on the decisions of investors. Besides these risks, however, other risks unforeseen at the time of preparing this report could also significantly affect the Group's financial results should they materialize. Furthermore, while the Group has

identified and manages the risks listed herein and prepared countermeasures for each of those risks, it might not be able to achieve the intended outcome of those countermeasures in the future. Unless otherwise stated, the forward-looking statements contained herein are based on assumptions as of March 31, 2020.

Risks related to changes in the overall economic climate

<p>1. Worldwide COVID-19 pandemic</p>	<p>The worldwide COVID-19 pandemic has resulted in an overall decline in market demand that could continue for some time. Furthermore, the UACJ Group may have to suspend certain operations if its employees become infected, or may be requested to temporarily close its facilities by governments in the countries in which it operates as a measure to prevent the spread of infections. All of these factors could negatively affect the Group's financial and other results.</p> <p>In response, group companies have taken steps to prevent infections by enabling teleworking for employees, temporarily closing some facilities, and complying with instructions and requests from each government, while placing the highest priority on the safety of employees as well as their families and loved ones. At the same time, the Group has been working to continue operating manufacturing plants that can stay open to fulfill its mission of supplying essential products to customers.</p> <p>Looking ahead, while continuing to carry out necessary measures for preventing COVID-19 infections, the Group will take steps to mitigate the impact of the pandemic on its financial and other results as much as possible. Specifically, it will continue to promptly implement a variety of measures when necessary, such as temporarily closing certain manufacturing plants, limiting outlays for capital investment, and procuring funds from committed credit lines. Nevertheless, with no foreseeable end at the present time, the pandemic could have a serious impact on the Group's financial and other results depending on the extent it spreads in the future.</p>
<p>2. Shifts in geopolitical and economic trends</p>	<p>The UACJ Group conducts business in various countries of the world, including Japan, the United States, Thailand, and China, and its supply chain extends globally. Therefore, its operations could be significantly impacted by a worldwide economic slowdown, geopolitical tensions, such as the trade war between the United States and China, and environmental regulations. Accordingly, the Group has been restructuring its businesses to better prepare it for responding to such changes.</p>
<p>3. Climate change and other global environmental changes</p>	<p>Demand for the UACJ Group's main products can be affected by changing weather conditions, whether regionally or globally. For example, demand for flat-rolled aluminum used to make beverage cans could weaken due to unseasonably cool summers and mild winters. Furthermore, overall market demand could decline in the future depending on the effects of climate change and other global environmental changes. These factors could have a significant impact on the Group's financial and other results.</p> <p>Amid such environmental changes and growing environmental awareness among consumers, the Group recognizes that it has opportunities to supply environmental friendly products by taking advantage of the lightweight and recyclable properties of aluminum. Toward that end, it established a new Corporate Sustainability Department in its Corporate Strategy Division in April 2020, and tasked it with initiating a variety of group-wide activities incorporating environmental, social and governance (ESG) criteria as well as the United Nations' Social Development Goals. Through such activities, the Group intends to make a more active contribution to combatting climate change and protecting the environment through its products and services.</p>
<p>4. Raw material prices</p>	<p>The UACJ Group's main raw materials are aluminum ingots sold on the global market, the price of which can fluctuate unexpectedly due to market trends and international affairs. The Group sets its product selling prices based on the market price of aluminum used for the products combined with the total cost of processing the aluminum. This condition is included in agreements with customers in advance, so selling prices reflect trends in the aluminum market and higher market prices are passed on to customers. If the aluminum market price falls steeply over the short term, however, the Group could record a loss on inventory valuation substantial enough to temporarily impact its financial and other results.</p> <p>In addition, the Group's financial and other results could be significantly impacted if prices of other raw materials it uses besides aluminum rise significantly, including metals used in aluminum alloys, various secondary materials, and crude oil and fuel, or if electricity rates or processing costs increase substantially.</p>
<p>5. Exchange rates</p>	<p>The UACJ Group carries out business internationally using various currencies, including the U.S. dollar and Thai baht. When preparing its consolidated financial statements, UACJ converts the financial results of its foreign subsidiaries from their respective currencies to Japanese yen amounts at rates set by the foreign exchange market. Consequently, unfavorable exchange rates could have a significant impact on its consolidated financial results. While it is difficult to completely eliminate this risk, the Group works to mitigate the financial impact by concluding forward exchange contracts.</p>
<p>6. Interest rates</p>	<p>If interest rates rise substantially in the future, UACJ would incur higher costs for repaying long-term loans with floating interest rates, which could have a significant impact on its consolidated financial results. To counter this risk, while it is difficult to repay all loans at fixed interest rates, the Company takes steps to ensure that a majority of its loans have fixed rates through interest rate swap agreements and other measures.</p>

Risks related to business strategies

<p>1. Returns on strategic investments</p>	<p>The UACJ Group has invested in production capacity expansion to meet demand from growing markets, particularly the automotive parts market and the can stock market in Asia and North America. Specifically, through three phases of capital investment, it constructed and expanded UACJ (Thailand) Co., Ltd.'s Rayong Works to supply flat-rolled aluminum for can stock in Southeast Asia, where economic growth is driving up demand. It has also expanded Tri-Arrows Aluminum Inc.'s Logan Mill to meet growing demand for aluminum can stock in North America amid heightened awareness of the environmental benefits of these products. To meet growing demand for aluminum auto panels and parts, the Group installed new automotive body sheet production lines at Fukui Works in Japan, and expanded production facilities operated by UACJ Automotive Whitehall Industries, Inc., in the United States.</p> <p>Returns on these investments have been steady since they were largely completed in fiscal 2019. If market conditions or the Group's operating environment worsen significantly in the future, however, the amount of returns on these investments could fall short of original targets, and a substantial shortfall could significantly impact financial and other results.</p>
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Operational risks

<p>1. Funds procurement</p>	<p>The UACJ Group procures funds needed for its operations through bank loans and the issuance of commercial paper. If it is unable to procure funds according to presumed requirements of these methods, however, due to changes in business or credit conditions, the Group may have to revise its business plans or incur higher costs for raising funds, which could impact its financial and other results. To reduce these risks, the Group always specifies the purpose of raising funds through loans from financial institutions or its issuance of commercial paper, and has secured committed credit lines. Furthermore, it makes efforts to improve cash flows in order to reduce its dependence on funds procurement.</p> <p>Since its establishment, UACJ has procured funds for proactive capital investment in Japan, the United States, and Thailand to expand production capacity in anticipation of growing demand in the markets it targets. While the amount of interest-bearing debt increased substantially as a result, the Company significantly reduced this amount in the fiscal year ended March 31, 2020, by using funds generated from returns on the capital investments, which began materializing during that fiscal year, and from the sale of businesses and other assets.</p>
<p>2. Group-wide corporate governance</p>	<p>With over 60 subsidiaries around the world, the UACJ Group is made up of many workplaces and divisions. Therefore, the collective ability of the Group's diverse workplaces and employees to effectively implement its policies and business strategies could have an impact on its operations and performance. Therefore, employee training programs are carried out to ensure that all members of the Group worldwide fully understand and comply with these policies and strategies, as well as the Group's internal rules, Group Code of Conduct, Management Philosophy, and UACJ Way guidelines. With a view to strengthen this framework, the Company set up a new Business and Culture Engagement Department in its Corporate Strategy Division in April 2020. Furthermore, as part of restructuring activities, the Company is taking steps to bolster headquarter functions, improve business management systems, revamp its corporate governance system, and reorganize management.</p>
<p>3. Development and deployment of strategic human resources</p>	<p>The optimal deployment of highly capable personnel can have a significant impact on the UACJ Group's ability to devise effective strategies and achieve goals that are necessary for ensuring its long-term growth. Therefore, the Group carries out succession planning to systematically identify and groom new leaders, promotes diversity and inclusion to bring out the best of its diverse workforce, and provides human resources training and development programs for essential personnel. It is also improving workplace conditions in an effort to enhance employee engagement and raise job satisfaction.</p>
<p>4. Procurement of limited raw materials</p>	<p>Certain raw materials procured by the UACJ Group are limited in supply. Consequently, the prices of these raw materials could change depending on the circumstances of their producers, and the volume the Group can procure could be restricted. Therefore, the Group stockpiles these materials in preparation for supply shortages and diversifies its suppliers to ensure that it can continue providing products to customers.</p>
<p>5. Product quality assurance</p>	<p>In 2017, a company operating in Japan's aluminum industry admitted to falsifying inspection certificates of aluminum products in order to meet customers' specifications for strength. Efforts are still ongoing to repair the damage caused by this major scandal to the reputations of not only this company but also Japan's entire aluminum industry. If such misconduct involving product quality occurs within the UACJ Group in the future, The Group could greatly lose the trust of its customers, and its competitiveness and financial results could be seriously impacted. Therefore, UACJ has created quality assurance guidelines, using those issued by the Japan Aluminum Association as a model, and positioned quality assurance at the core of its approach to compliance. Based on the guidelines, group companies jointly conduct product quality inspections, strictly enforce compliance, and actively strive to both assure and improve quality. Furthermore, the Group renews its quality assurance policy every fiscal year as a basis for implementing improvements and following up on past initiatives, including relevant training programs along with measures for preventing the recurrence of product defects and eliminating human error.</p>

6. Diversifying needs of customers	<p>The needs of the UACJ Group's customers have been diversifying in recent years amid the accelerating pace of digitalization and technological innovation, as well as changes in the global environment and societal trends. The Group's ability to provide products and services that promptly meet such diversifying needs in the future could have a significant impact on its competitiveness, growth, and financial and other results.</p> <p>To meet these customers' needs, the Group participates in national projects and conducts joint-research with universities and leading research institutions around the world to acquire and integrate cutting-edge technologies that can bolster its competitiveness. It is also collaborating with customers, suppliers, and other organizations to develop new products at its U-AI Laboratory based at its R&D Center. Furthermore, the Group is actively promoting a digital transformation throughout its operations, and proactively applying technologies that facilitate recycling and other environmental initiatives in an effort to contribute to a more sustainable planet.</p>
7. Natural disasters and accidents	<p>The UACJ Group operates in areas of the world that have experienced earthquakes, floods, and other natural disasters, as well as large-scale accidents, terrorist attacks, and other man-made disasters. The frequency of such disasters causing damage to people and property was especially high in 2019. Furthermore, the Group, itself, operates high-temperature and high-voltage equipment, such as casting furnaces and quenching furnaces, which could cause serious accidents unless operated safely. If the Group or one of its suppliers sustains damage caused by such an accident or a natural or man-made disaster that results in a suspension of manufacturing operations, the Group's financial and other results could be significantly impacted.</p> <p>To reduce these risks, the Group takes every possible precaution to ensure the safety of its equipment and facilities, particularly the aforementioned furnaces. For example, it has established various equipment safety rules and routinely conducts safety drills and training programs. In the fiscal year ended March 31, 2020, UACJ specified onsite fires and explosions as a priority risk from among possible serious accidents, conducted risk assessments at each of the Group's manufacturing plants worldwide, and analyzed their response capabilities. In addition, the Group's flat-rolled aluminum manufacturing plants in Japan have been implementing business continuity plans in an effort to ensure that the production of these important products can continue during times of emergency.</p>
8. Legal compliance	<p>The UACJ Group is subject to a broad range of laws in regulations in the countries in which it operates, and, therefore, could be penalized and forced to pay fines due to violations of such laws and regulations, regardless of any negligence on its part. Furthermore, if such laws and regulations are made stricter or if new laws or regulations are enacted, the Group could incur expenses needed to comply with the changes.</p> <p>The Group recently reaffirmed its strong commitment to compliance along with safety as the most important values for all of its employees and officers when it revised its Management Philosophy and UACJ Way guidelines in February 2020. Included in the philosophy is the following vision: "Aluminum is our passion. It inspires our work in building a better world and healthier environment." Under the revised philosophy and guidelines, the UACJ Group will strive to build up public trust and minimize any unforeseen losses that could result from violations of laws and regulations by continuing to provide training programs covering the Group Code of Conduct to all employees and officers, and to implement various measures for ensuring compliance with laws and regulations that are important for business continuity as a manufacturer, including those related to occupational health and safety as well as environmental protection.</p>
9. Information security	<p>The UACJ Group handles a wide range of information, including data provided by customers, personal details of employees and their families, and information produced in the process of conducting business. If such information is stolen and leaked by a malicious third party, the Group could be responsible for reparations, suffer a loss of credibility, and lose opportunities for future business. Moreover, if intellectual property acquired through R&D or manufacturing operations is leaked or compromised, the Group's competitiveness could be weakened.</p> <p>In consideration of information security trends in recent years, UACJ has specified information security as a priority risk for the Group, and created standard group-wide information management rules and electronic information security rules in the fiscal year ended March 31, 2020, to maintain a common approach for protecting information across the entire Group. Furthermore, to continue improving its information security management, the Group routinely conducts relevant assessments based on cyber security management guidelines issued by Japan's Ministry of Economy, Trade and Industry and the Information-Technology Promotion Agency, Japan.</p>

Risks related to accounting-based valuation and estimates

1. Impairment of fixed assets	<p>If market conditions or the UACJ Group's operating environment worsen significantly in the future, the market value of fixed assets it owns could decline markedly and the returns on those assets could decrease as a result. In such cases, the Company would have to record an impairment loss on the fixed assets in accordance with relevant accounting standards, and a substantial impairment loss amount could significantly impact its consolidated financial results.</p>
2. Recoverability of deferred tax assets	<p>The Company calculates the amount of deferred tax assets it can presumably recover based on reasonable estimates of future taxable income. If market conditions or its operating environment worsen significantly in the future, however, its taxable income could not only differ substantially from such estimates but also result in a reversal to deferred tax liabilities. A substantial reversal could significantly impact consolidated financial results.</p>