

Risks (Opportunities and Threats) Surrounding UACJ

UACJ recognizes that all of the phenomena that stand in the way of achieving the corporate philosophy on which UACJ Vision 2030 rests—that of contributing to society by using raw materials to manufacture products that enhance prosperity

and sustainability—are risks. The following are major risks that we believe may affect the decisions of investors significantly due to the likelihood that they will occur, and the degree of impact they may have.

Main external risks

Risk	Risk details, impacts	Actions
The COVID-19 pandemic and future epidemics	<p>Threat Opportunity Product demand could change according to shifts in consumer lifestyles depending on the circumstances of the ongoing global COVID-19 pandemic.</p> <p>Threat Operations could be delayed, interrupted, or suspended in the event of an outbreak of infections among employees or a request from the government or other organization to suspend operations due to the COVID-19 situation.</p>	<ul style="list-style-type: none"> • Infection control measures for employees are being thoroughly implemented. • All workplaces are implementing business continuity planning in preparation for an outbreak of infections. • Costs are being controlled and committed credit lines have been established to secure funds if necessary.
Climate change and other changes in the global environment	<p>Threat The Group could lose public trust and business opportunities if its efforts to combat the impact of global warming and climate change through reductions in greenhouse gas (including CO₂) emissions and other initiatives are deemed to be insufficient.</p> <p>Opportunity There are growing opportunities to help solve environmental issues by providing products and services that make effective use of aluminum's beneficial properties as a metal, including its light weight, thermal conductivity, and recyclability.</p>	<ul style="list-style-type: none"> • UACJ has specified relevant materiality issues with related action plans and key performance indicators. • Reducing CO₂ emissions has been designated as one of four ways the Group can make contributions in its UACJ Vision 2030 long-term management roadmap. • Contributing to solving issues related to climate change has been designated as a major policy in the Company's most recent mid-term management plan in recognition of the seriousness of this issue. • A committee tasked with initiating climate change countermeasures was set up in April 2021 to provide a venue for management to examine and discuss the Group's solutions. • The Group is continuing its efforts to facilitate aluminum product recycling, reduce CO₂ emissions from manufacturing, and save energy.
Damage from extreme weather, major earthquakes, and other disasters	<p>Threat The safety of the Group's employees and stable operations of its facilities in various regions of the world could be affected by natural disasters, including earthquakes, tsunamis, typhoons, and floods, as well as by man-made disasters, such as terrorism.</p> <p>Threat The manufacturing and business activities of the Group as well as its customers and suppliers could be suspended as a result of a natural or man-made disaster.</p>	<ul style="list-style-type: none"> • Business continuity management is periodically monitored and discussed by the CSR Committee. • All workplaces routinely carry out emergency drills and other activities to prepare for a disaster and mitigate its damage. • Business continuity plans are in place at all workplaces as a means to enhance business continuity management.
Changes in government policies and economic trends	<p>Threat Procuring raw materials could become difficult and procurement costs could rise due to sudden changes in government policies, economic conditions, or regulations in the countries in which the Group manufactures and sells products or its suppliers are based, or due to geopolitical tensions, such as a trade war between the United States and China.</p> <p>Threat Opportunity Business opportunities could change according to fluctuations in demand caused by shifts in government policies or economic trends.</p> <p>Threat Costs needed to respond to the changes described above could be incurred and increase.</p>	<ul style="list-style-type: none"> • Measures are continuously implemented to increase the Group's ability to effectively respond to changes in the operating environment, including structural reforms for reducing the break-even point. • The Group optimally designates manufacturing facilities to meet demand while leveraging its global supply network covering Japan, the US, Thailand, China, and other countries. • The Group has diversified its sources of aluminum and other raw materials.
Technological advances and changes in demand	<p>Threat Opportunity The Group's competitiveness and ability to grow will be affected by rapid changes and advances in digital and other technologies as well as shifts in environmental and societal trends.</p> <p>Opportunity Products and services that make use of aluminum's beneficial properties are increasingly expected as customers' needs become more diverse amid shifts in technological and societal trends.</p>	<ul style="list-style-type: none"> • The Company has placed priority on improving beneficial technologies and digital platforms in its most recent mid-term management plan. • The Company's Digital Innovation Department was set up in April 2020 to promote a digital transformation throughout the Group's operations. • The Company's Mobility Technology Center was established in October 2020 to develop applications for aluminum in the automobile industry. • The Company is developing its own venture organization to drive new business development in collaboration with startups and other organizations outside the Group. • The Group is closely following and studying technological and market-related trends.
Market volatility	<p>Threat Opportunity Procurement costs could change due to fluctuations in market prices of aluminum, metal additives, and various secondary materials (the Company has a system in place to pass on changes in the market price of aluminum to customers based on contract conditions concluded with them in advance, but it could record a gain or loss on the valuation of its inventory assets if the price rapidly changes over the short term).</p> <p>Threat Opportunity Manufacturing and processing costs could change according to fluctuations in energy prices.</p> <p>Threat Opportunity Changes in exchange rates and interest rates could impact financial results.</p>	<ul style="list-style-type: none"> • The Group will continue and expand its practice of passing on changes in the market price of aluminum to customers through contract conditions. • The Group will continue its initiatives to reduce dependence on fuel and save energy. • Foreign exchange contracts, fixed interest rates, and other methods are regularly utilized to reduce the impact of market fluctuations.

Main internal risks

Risk	Risk details, impacts	Actions
Product quality assurance	<p>Threat The Group could lose the trust of its customers and other stakeholders if its quality assurance activities are carried out fraudulently or improperly, or if its products fall short of quality standards.</p> <p>Threat Failure to meet quality specifications could inconvenience customers, disrupt the market, and lead to an inability to fulfill supply obligations.</p> <p>Opportunity The Group can earn more trust from customers and a stronger reputation in the market by implementing stricter quality controls.</p>	<ul style="list-style-type: none"> • UACJ has specified relevant materiality issues with related action plans and key performance indicators. • Quality assurance is periodically checked and discussed at the management level through the Company's Quality Committee. • Quality control plans and measures are routinely executed. • Compliance training is regularly carried out. • The Group is expanding the use of automated quality verification tests. • Periodic quality inspections are mutually conducted by the Group's workplaces.

Occupational health and safety	<p>Threat A workplace accident or disease outbreak could cause harm to employees and damage to physical property.</p> <p>Threat A workplace disaster could interfere with the Group's manufacturing operations.</p>	<ul style="list-style-type: none"> • Safety and compliance have been designated as basic principles of the UACJ Way, a set of guidelines for all employees, and occupational health and safety are given top priority in business activities. • UACJ has specified relevant materiality issues with related action plans and key performance indicators. • Occupational health and safety activities are periodically followed and discussed at the management level through the Company's Health and Safety Committee. • Health- and safety-related rules have been put in place and training is carried out on a regular basis. • Management resources are allocated and countermeasures taken to eliminate hazards in the workplace, including fire and explosion risk assessments.
Development and deployment of strategic human resources	<p>Threat Recruiting talented employees in Japan is increasingly difficult due to the country's rapidly aging population.</p> <p>Threat Opportunity Requirements of employees and necessary skills are changing with the Group's global expansion.</p> <p>Threat Opportunity The effective deployment of human resources is critical for success in the Group's operations.</p>	<ul style="list-style-type: none"> • UACJ has specified relevant materiality issues with related action plans and key performance indicators. • The Group carries out succession planning to systematically identify and groom new leaders. • The Group is promoting diversity and inclusion to bring out the best of its diverse workforce. • Targeted personnel are provided with human resources training and development programs. • Working conditions are being improved to raise employee engagement and satisfaction. • Personnel are being effectively deployed through internal recruitment systems. • Training programs for passing down manufacturing skills in the workplace, such as the Company's Monozukuri Gakuen program, are being set up and expanded.
Compliance	<p>Threat The Group could be subject to penalties and fines if it fails to fully comply with laws and environmental regulations.</p> <p>Threat The Group could lose the trust of its stakeholders and face a public backlash if it fails to meet their expectations regarding human rights and other issues.</p> <p>Threat Compliance with newly enacted or revised laws and regulations could incur costs.</p>	<ul style="list-style-type: none"> • Safety and compliance have been designated as basic principles of the UACJ Way, which is an integral part of the Company's corporate philosophy. • The Group Code of Conduct is promoted on a Group-wide basis. • UACJ has specified materiality issues concerning human rights and created related action plans and key performance indicators. • The Company has begun examining the implementation of human rights due diligence. • Measures to strengthen internal controls in the Group are being led by committees in charge of health and safety, quality, the environment, and CSR. • Activities for ensuring compliance with all relevant laws and regulations are carried out on a regular basis. • Requests are made to suppliers based on the Group's CSR Procurement Guidelines.
Returns on strategic investments	<p>Threat Opportunity The achievement of the Group's business objectives depends on the returns on its investments in increased production capacity to meet rising demand from growing markets in Asia and North America, specifically for car stock and auto parts.</p> <p>Threat Business objectives may not be achieved if market conditions change or the business environment worsens more than previously expected when investments were originally planned.</p>	<ul style="list-style-type: none"> • The Group has been securing returns on investments ahead of schedule by capturing rising demand in Asia and North America, optimizing its product mix, and balancing regional customer structures. • The Company carefully examines its investments, has expanded the department that analyzes investments in the Finance Division, and closely monitors the outcomes of its investments made in Thailand, the US, and Japan.
Group-wide corporate governance	<p>Threat Opportunity The Group's collective capabilities are affected by its ability to integrally manage all of its workplaces around the world and fully execute policies and strategies on a Group-wide basis.</p>	<ul style="list-style-type: none"> • The Group's corporate philosophy is made known to all employees. • Measures to strengthen internal controls in the Group are being led by committees in charge of health and safety, quality, the environment, and CSR. • UACJ's president holds meetings with group employees to discuss the corporate philosophy. • A department tasked with fostering a new corporate culture was set up in April 2020. • Internal control audits and operational audits are conducted on a routine basis.
Information security	<p>Threat The Group could be responsible for reparations and lose credibility and business opportunities if information in its possession is leaked or stolen, such as customer data, personal information, trade secrets, and technological information.</p> <p>Threat A cyber attack on the Group could cause a suspension of operations due to a stoppage of information systems, and costs for restoring systems could be incurred.</p>	<ul style="list-style-type: none"> • The Group strictly manages information based on its own information management rules and electronic information security rules. • The Group carries out assessments and measures for improving all aspects of security in accordance with cyber security management guidelines.
Funds procurement	<p>Threat Securing funds could be subject to constraints or higher costs due to changes in business and credit conditions.</p>	<ul style="list-style-type: none"> • The Group has diversified its methods for procuring funds, including loans through committed credit lines with banks, direct procurement through the issuance of commercial paper, and asset finance. • Measures are taken to increase profitability and improve capital efficiency in order to boost cash flow. • Withdrawal from non-profitable and non-core businesses is regularly discussed and examined by management.

Risks related to accounting-based valuation and estimates

Risk	Risk details
Impairment of fixed assets	If market conditions or the 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. Its consolidated financial results could be impacted if the impairment loss is substantial.
Recoverability of deferred tax assets	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 the Company's consolidated financial results.