

## Operational Risks and MHI's Response to Them

Management acknowledges key risks as described below with the potential to significantly influence our financial position, operating results, and cash flow status of MHI Group. Two key risks that could emerge within the next ten years are: 1) the spread of the novel coronavirus disease (COVID-19), and 2) delayed development of Mitsubishi SpaceJet. Both of these risks have a particularly strong potential to manifest themselves and have a material impact on the Group.

From a medium- to long-term perspective, some of these key risks could bring about further changes to the business environment surrounding the Group as well as to the structure of society. As such, the Group acknowledges the need for foresight and for proactive measures to enable us to adapt to such developments. Items relating to the future are based on the judgment of the Group as of the end of fiscal 2019, the year ended March 31, 2020.

Key risks	Details of key risks	Countermeasures
The Spread of the COVID-19 Pandemic	<ul style="list-style-type: none"> <li>• Delayed progress in project orders leading to delayed recording of sales</li> <li>• Travel restrictions and supply chain disruption</li> <li>• Delays on contract negotiations and the order-taking process</li> <li>• Impact on production and service operations</li> <li>• Reduced or suspended plant operation and other production adjustments</li> <li>• Supply chain disruption</li> </ul>	We have taken action on staffing and other measures to reduce fixed costs, temporarily furloughed parts of our workforce, revised plant operating rates, reduced output, cut down on outflows, revised investment plans, made more effective use of surplus resources, and made use of subsidy programs available in various countries.
Delayed Development of Mitsubishi SpaceJet	<ul style="list-style-type: none"> <li>• Delayed recording of sales</li> <li>• Customer cancellation of contracts</li> <li>• Claims for damages from customers, business partners, or other stakeholders</li> </ul>	We are working to monitor the state of the market ahead and maintain relations with stakeholders. Concurrently, we continue to assess our development schedule, and we are taking steps to keep budgets at appropriate levels.
Disasters	<ul style="list-style-type: none"> <li>• Damage or destruction of production equipment</li> <li>• Supply chain impediment or disruption</li> <li>• Shortages of materials and parts or suspension of services necessary to production</li> <li>• Reduced operation or idling of production plants</li> <li>• Loss of alternative production equipment or suppliers</li> <li>• Damage not covered by insurance</li> <li>• Shrinkage in product and service demand due to events such as acts of terrorism or global pandemics</li> </ul>	We have developed a global group management structure, make use of disaster measure support tools, and establish and maintain communication systems and a business continuity plan. We implement regular plant inspections and training, and take additional measures to gather information on the state of affairs and safety in various countries.

Key risks	Details of key risks	Countermeasures
Changes in the Business Environment	<ul style="list-style-type: none"> <li>• The scale of business could shrink and it could become harder to recoup invested capital due to growing environmental consciousness and the resulting decline in product and service demand.</li> <li>• Weaker demand for fossil-fuel derived electric power could cause decline in orders for construction work and after sales service.</li> <li>• Failure to realize M&amp;A and alliances could lead to the write-down of assets and the recording of impairment losses.</li> </ul>	<p>To enhance our product performance, reliability, and price competitiveness, we are working to maintain and strengthen the competitiveness of our products, particularly through R&amp;D and capital investment. We are also focusing efforts on incorporating external knowledge to propose new functions and solutions that anticipate market trends. We are also pursuing initiatives for new business development under the guidance of the Growth Strategy Office, which we set up in April 2020. Specific measures include combining existing lines of business and cultivating business domains beyond the reach of our existing business units.</p>
Product Issues	<ul style="list-style-type: none"> <li>• Claims for damages</li> <li>• Damages not covered by insurance</li> </ul>	<p>All divisions including design, manufacturing, quality assurance, and procurement work together to implement proper quality management and safety assurance. The Group also implements measures including the formulation and administration of global policies on business risks and other regulations, maintains and upgrades business risk management frameworks, prior review and post-order monitoring of individual projects, education for department manager class executives, and ongoing product safety seminars.</p> <p>▶ For details, please see page 74.</p>
Intellectual Property Issues	<ul style="list-style-type: none"> <li>• Liability for damages</li> <li>• Situations that could prevent the use of certain technologies</li> <li>• Risk of being unable to execute our business due to being unable to introduce licenses for certain technologies necessary to the execution of our business from third parties</li> </ul>	<p>We prevent intellectual property-related problems by thoroughly investigating intellectual property held by other parties at each project stage, basic planning, design, and manufacture. We also use training and human resource cultivation to improve the specialization of our Intellectual Property division.</p>
Legal and Regulatory Violations and Information Leaks	<ul style="list-style-type: none"> <li>• Situations that lead to the imposition of administrative penalties</li> <li>• Liability for damages</li> <li>• Situations that threaten the execution of our business.</li> <li>• Substantial loss of competitiveness and damage to reputation and credibility</li> </ul>	<p>We implement rigorous, ongoing internal training on subjects such as compliance, information management, and brand strategies, and we formulate and administer global policies and rules. We also implement a cybersecurity program under the control of the chief technology officer (CTO) to minimize the risks of cyberattacks. Under this program, we perform initiatives such as cybersecurity governance (establishing standards, implementation of measures, self-assessments, and internal audits) and incident response.</p> <p>*Chief Technology Officer</p> <p>▶ For details, please see page 76.</p> <p>▶ For details on information leaks, please see page 77.</p>