

Operational Risks and MHI’s Response to Them

- Key risks that could, in the assessment of MHI Group’s management, materially affect the Group’s financial condition and/or operating performance, including cash flows, are tabulated below (forward-looking statements are based on judgments as of March 31, 2021).
- We have established management processes for identifying, assessing and cataloguing operational risks. To identify relevant risks, we prepare a comprehensive list of risks with input from external experts and winnow it down to specific risks with a concerning possibility of manifesting within roughly ten years. For every risk thus identified, we assess the probability of it manifesting and the magnitude of its impact if it were to manifest, taking into account the effectiveness of existing countermeasures. Through this process, we

compile a list of quantifiable risks with the potential to materially affect our operations. Based on the comprehensive list of risks, we also identify qualitative risks not readily quantifiable.

- The countermeasures in the table below are examples of specific measures we have already implemented in response to key risks. They are factored into the key risks’ potential impacts on our financial condition and/or operating performance. In addition to the countermeasures mentioned below, we otherwise strive to avoid and mitigate various risks, including those not listed below, in accordance with their nature. We also endeavor to minimize the impact of risks if they were to manifest.

Key risks	Potential impacts on financial condition and/or operating performance	Countermeasures
COVID-19 pandemic	<p>(Businesses that supply made-to-order products to infrastructure-related companies and government entities and account for some two-thirds of consolidated revenue)</p> <ul style="list-style-type: none"> ● Revenue recognition delays due to project delays ● Travel restrictions, supply chain backups ● Delays in contract negotiations or order bookings processes <p>(Businesses related to commercial aircraft)</p> <ul style="list-style-type: none"> ● Impacts on production or service businesses due to, e.g., airlines’ capex cuts 	<ul style="list-style-type: none"> ● Took action to strengthen earnings power <ul style="list-style-type: none"> ■ Invested in markets with favorable growth prospects, strengthened sales networks, shifted toward service businesses ■ Reduced fixed expenses, including through staffing measures; furloughed employees ■ Adjusted plants’ capacity utilization/production, reduced expenses paid to external suppliers, revised investment plans, effectively utilized surplus resources, utilized government subsidy programs ● Established work-from-home environment, augmented tools, modified systems
Changes in business environment	<ul style="list-style-type: none"> ● Restrictions on, e.g., business dealings or supplier selection due to intensification of US-China conflict (e.g., tightening of export controls) ● Loss of competitiveness due to, e.g., intensification of labor shortages or hollowing out of manufacturing sector in Japan ● Reduction in demand for products or services, contraction in businesses’ scale and/or inability to recoup invested capital due to growing environmental consciousness ● Reduction in order bookings or slowdown in service businesses in response to, e.g., intensification of competition or sharp drop in demand for electric power derived from fossil fuels ● Loss of market competitiveness or opportunities to win orders due to greater-than-expected difficulty complying with environmental regulatory tightening ● Recognition of impairment losses due to mergers, acquisitions and/or alliances’ underperformance of expectations 	<ul style="list-style-type: none"> ● Placed priority on new functions/solutions that incorporate external expertise and are predicated on maintaining or strengthening product competitiveness in terms of, e.g., performance, reliability, price and/or eco-friendliness through R&D or capex ● Developed products/services by cultivating businesses in new domains or collaborating across existing businesses, spearheaded by Growth Strategy Office established in April 2020 ● Facilitated PMI*¹ through, e.g., better up-front screening and monitoring of M&A deals/alliances <p>*¹ Post Merger Integration</p>

Key risks	Potential impacts on financial condition and/or operating performance	Countermeasures
Disasters	<ul style="list-style-type: none"> • Destruction of or damage to production facilities, supply chain backups or disruptions, shortages of, e.g., parts or materials required for production, interruption of services, reduction in production capacity utilization, plant shutdowns, loss of backup production capacity or suppliers, and/or losses in excess of insurance coverage due to a disaster in Japan or Thailand, where production capacity is concentrated, or anywhere else operations are located globally 	<ul style="list-style-type: none"> • Maintained adequate insurance coverage, collected information on conditions and safety in every country in which we operate, took precautions based on that information and communicated with relevant government authorities • Utilized disaster preparedness/response tools, established/maintained lines of communication, formulated/updated business continuity plans, inspected plants, upgraded facilities' earthquake-resistance, periodically conducted emergency drills
Product/service-related problems	<ul style="list-style-type: none"> • Cost overruns, payment of damages to customers, impairment of public reputation and/or loss of societal trust due to, e.g., product performance problems, late deliveries, safety problems, cost increases attributable to, e.g., changes in specifications or process delays; unforeseen problems related to construction or sourcing of, e.g., parts and materials, and/or impacts on production activities or products/services' availability to customers resulting from a supplier's inability to supply specific parts/materials 	<ul style="list-style-type: none"> • Instituted and enforced various regulations, built and strengthened operational risk management regime • Individually screening incoming orders before acceptance, monitoring fulfillment process after acceptance • Conducting training for project/department managers, holding product safety seminars on ongoing basis • Implemented recurrence prevention measures, including by recapping causes of, and corrective action in response to, major losses incurred on previous projects and incorporating the information into internal training programs <p>▶ For details, please see page 86.</p>
Intellectual property disputes	<ul style="list-style-type: none"> • Liability for damages and/or loss of right to use certain technology due to adverse outcome of, e.g., litigation related to intellectual property (IP) infringement • Obstruction of business operations due to inability to in-license technology from third party 	<ul style="list-style-type: none"> • Avoiding IP disputes by thoroughly researching IP owned by others at the product planning, design and production stages • Upgraded IP staff's expertise through education and HR development
Cybersecurity problems	<ul style="list-style-type: none"> • Major loss of competitiveness, impairment of public reputation and/or loss of societal trust in connection with information leak due to, e.g., increasingly sophisticated/malicious cyberattacks • Disruption of operations due to, e.g., disablement of computers or servers • Investigations by authorities, claims for damages by, e.g., customers 	<ul style="list-style-type: none"> • Built cybersecurity regime under direct supervision of CTO*² • Implemented cybersecurity controls (standards, safeguards, self-assessments, internal audits), incident response measures, etc. <p>*² CTO: Chief Technology Officer</p>
Legal/regulatory violations	<ul style="list-style-type: none"> • Administrative sanctions imposed by government authorities, including, correction orders, penal fines, non-penal fines, suspension of operations and/or export bans; claims for damages • Disruption of operations, impairment of public reputation and/or loss of societal trust 	<ul style="list-style-type: none"> • Instituted and enforced MHI Group Global Code of Conduct and various regulations applicable to all Group personnel • Regularly holding Compliance Committee meetings, established internal compliance reporting program • Disseminating messages from senior management on strict legal/regulatory compliance, conducting various internal trainings on ongoing basis, augmenting training curricula, conducting internal audits <p>▶ For details, please see page 88.</p> <p>▶ For details on information leaks, please see page 89.</p>