

# Enhancement of Business Risk Management

— Reform of Decision-Making Processes in Business Activities —

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# I . Background (1): Chronology of events

## Losses from AIDA cruise ship construction

Insufficient to merely analyze the causes of cruise ship loss and then implement response measures. Needs to be recognized as a serious and urgent Group management issue whose resolution is indispensable to future growth.

Establishment of Business Risk Management Division under direct control of CEO (April 2016)

Business risk management enhancement activities (including analysis of current status and response measures)

This report (following pages)

Establishment of Cruise Ship Business Evaluation Committee (April 2016)

Evaluation results reflected in business risk management

Analysis of loss causes and evaluation of business viability

This report (additional materials)

## Compliance risk (compliance with laws/social responsibility)

- Group-wide compliance firmly in place (Reaching to socially required level)
- Now strengthening region-specific response capability in tandem with globalization of business activities

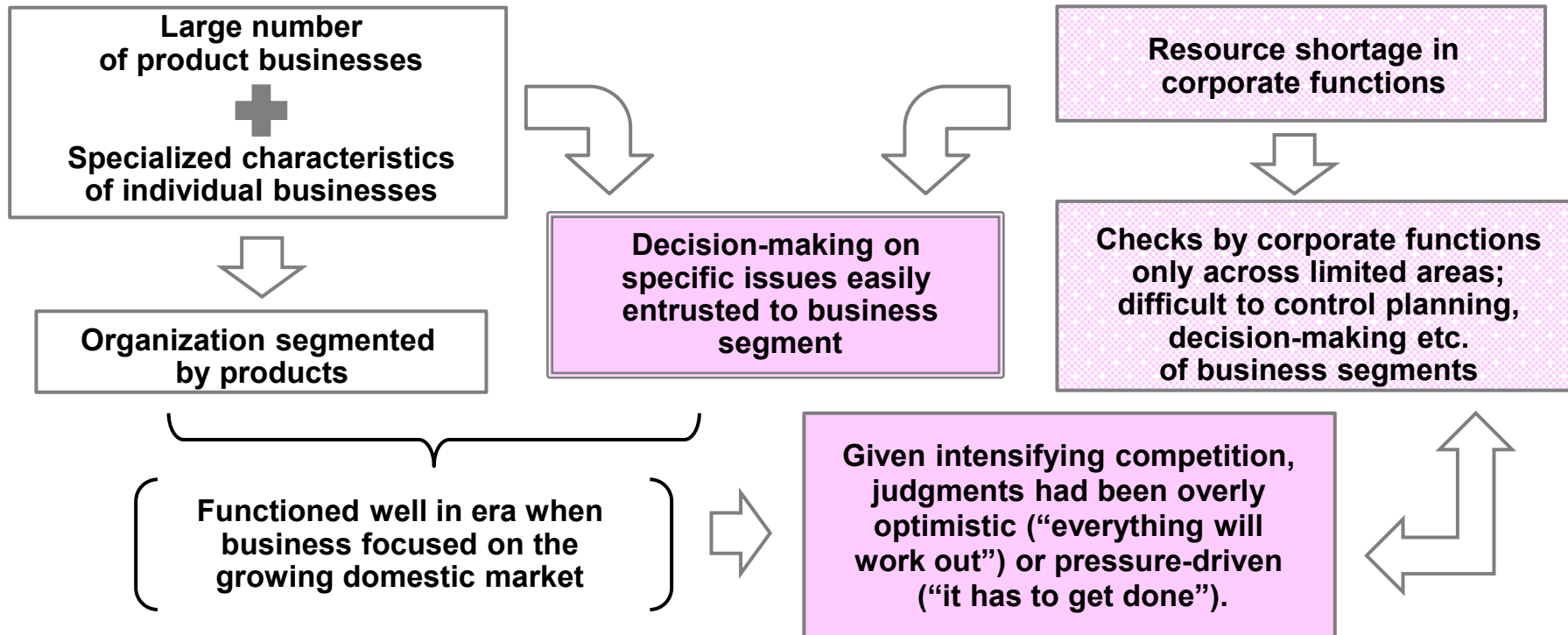
## Brand/reputation risk

- Now strengthening activities in CSR, PR, GR, SR, IR, etc. (including brand story)
- Currently working to prevent reputational damage from cruise ship construction and other business risk issues

## Business risk

- Since the 1990s, risks arising from business activities have generally become greater and more diverse (see pages 5-6).
- Enhancement of business risk management is urgently needed to prepare for business expansion from further globalization and the development of new fields and new markets.

## Decision-Making Process To Date:



Since the 1990s, technology has become more sophisticated and complex, business has become more globalized and competition is more intense. Overreliance on decision-making driven by individual business segments has resulted in more cases of major losses from new business fields. (see page 6).

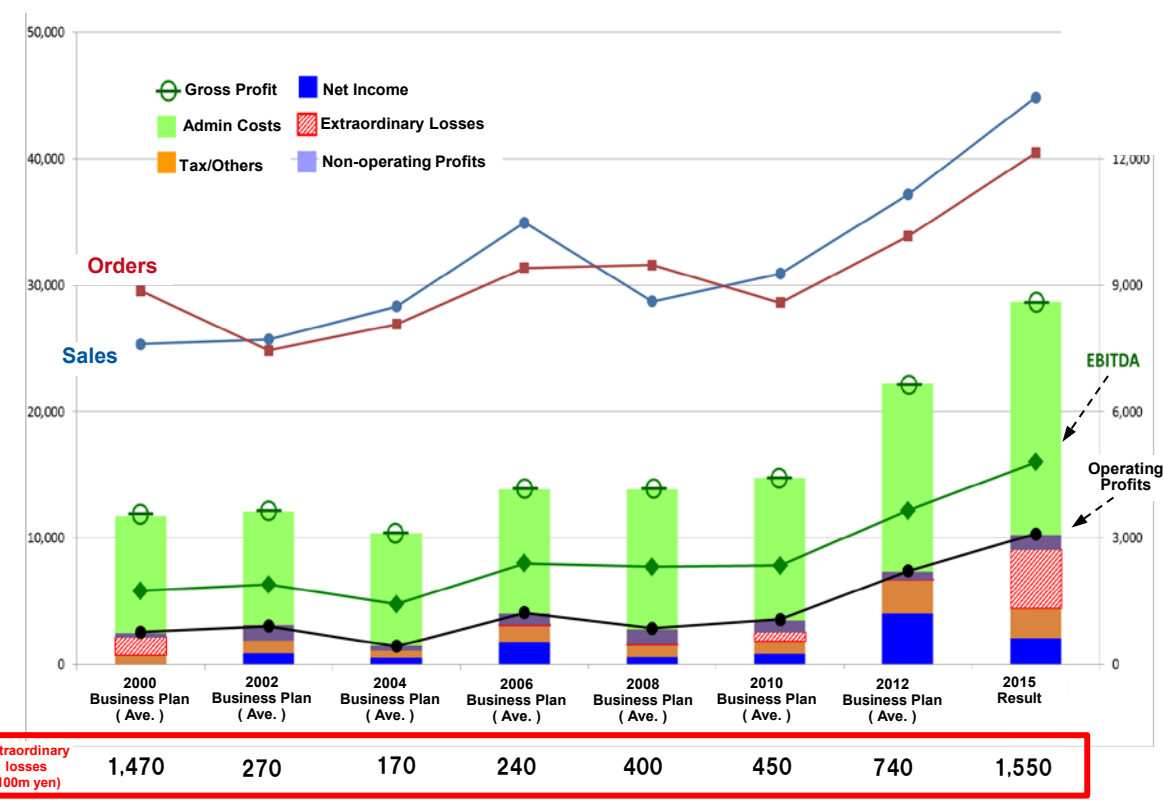
**Reforms of decision-making processes and deployment of adequate resources are needed.**

# I . Objective (further reinforcement of earning capacity)

- Earning capacity and financial structure have been strengthened and improved through business scale expansion and structural reforms.
- However, before business scale expansion occurred, losses arising from business-related risks became larger and increasingly diverse.

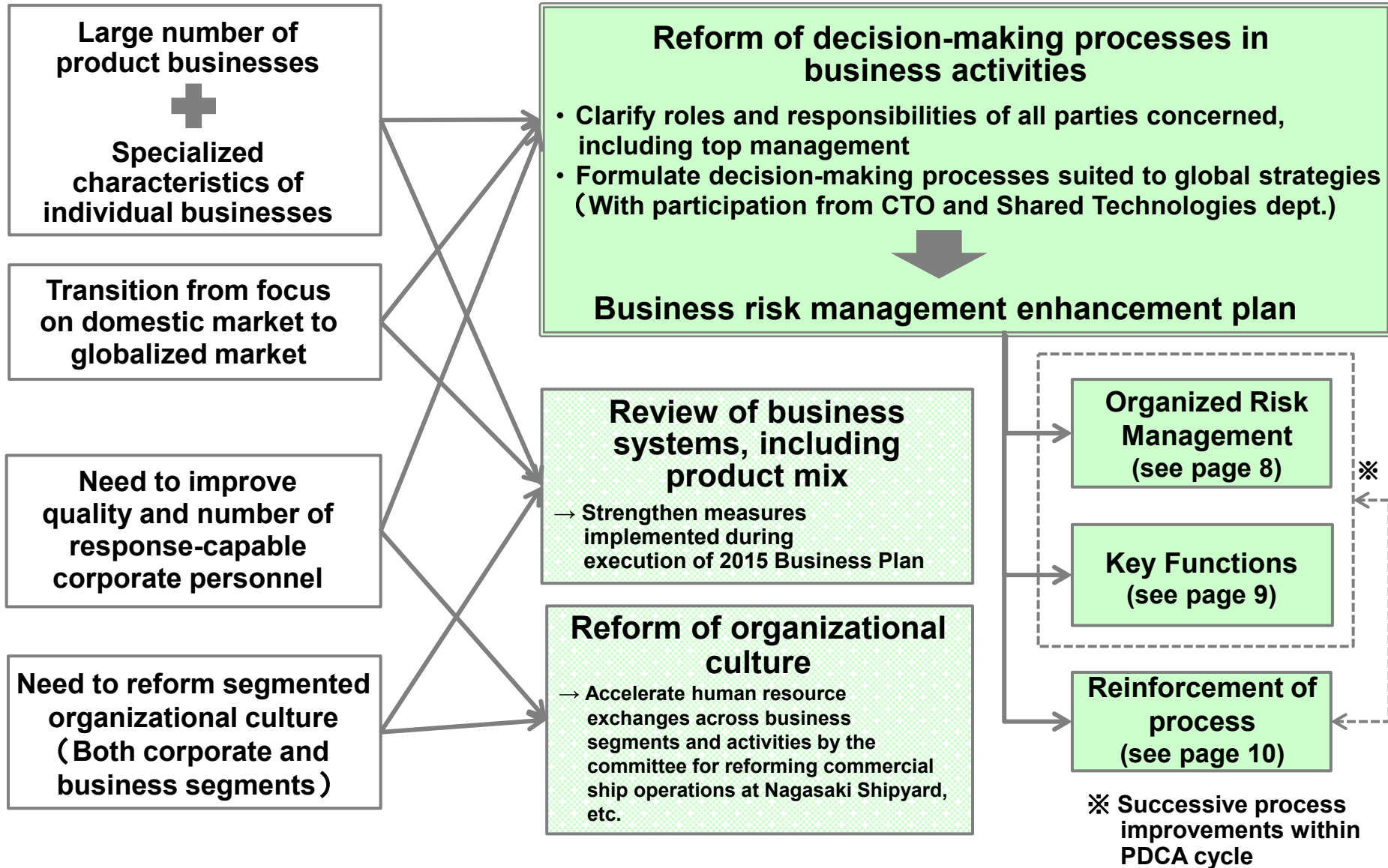
see graph below

• By reinforcing business risk management, we will limit and control the occurrence of risks to the utmost extent, while pursuing stronger earning capacity during business scale expansion.



Projects generating major extraordinary losses	
Start date	Business area
2006 Business Plan	Commercial aircraft Tier 1 (new model)
2008 Business Plan	Paper printing (new customer)
2010 Business Plan	Solar batteries (new product)
2012 Business Plan	Onshore wind turbines (new market)
	Cruise ship construction (business re-entry)
2015 Business Plan	Onshore wind turbines
	Commercial aircraft engines (participation in new joint development)
	Cruise ship construction

# II . Basic concept

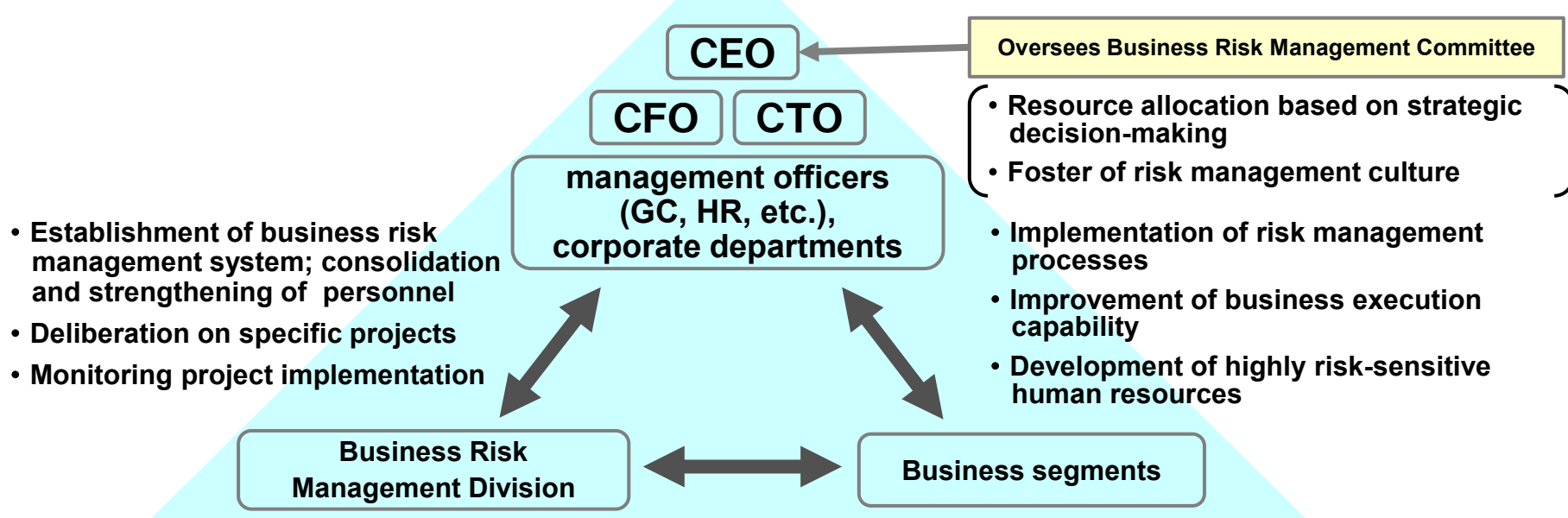


# III-1. Organized Risk Management

Pursue more organized risk management by 1) and 2) below; clarify roles of management officers, business segments and corporate departments

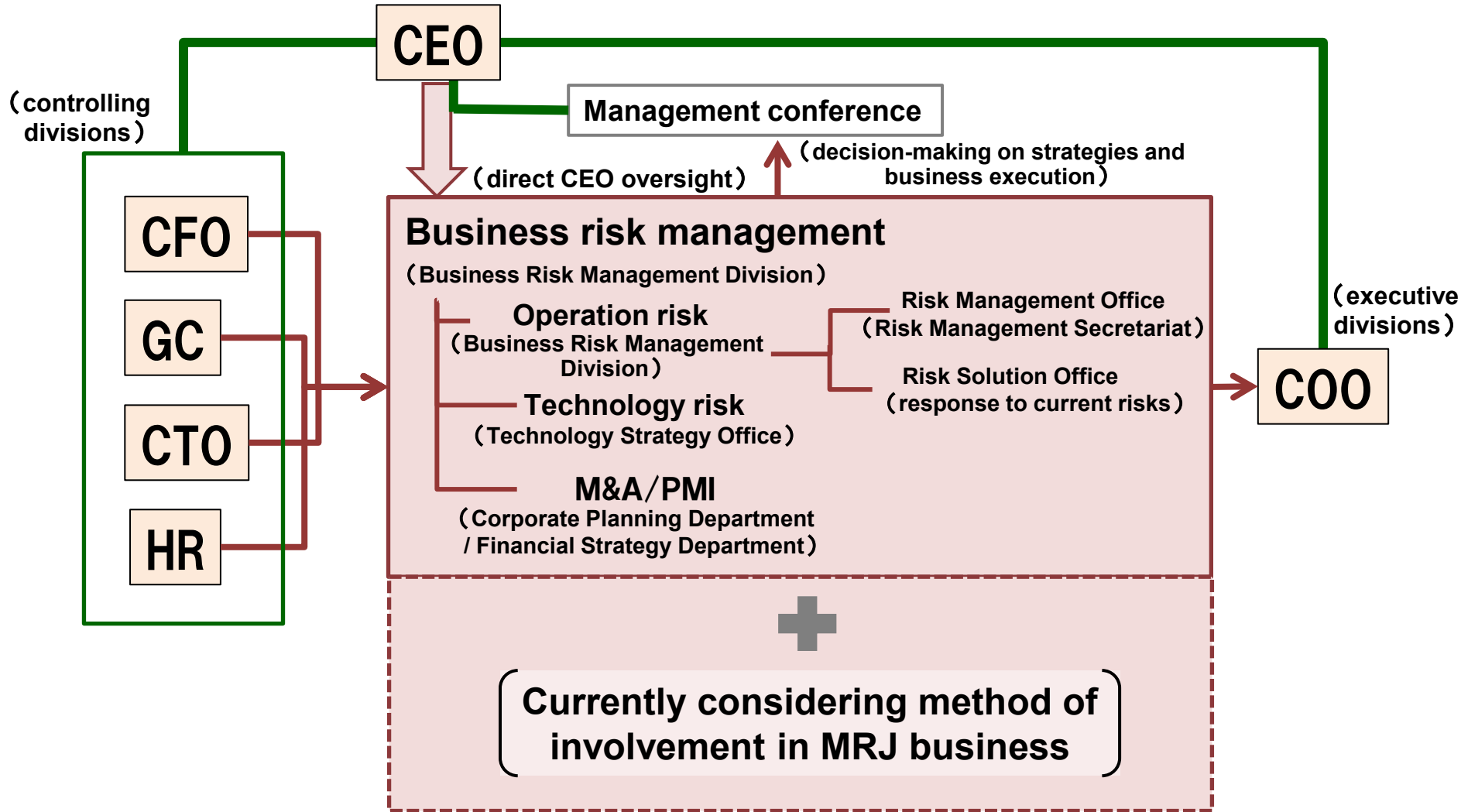
- 1) Establish “Business Risk Management Charter” as Company’s foremost set of rules
  - Clarify risk management targets, etc.
- 2) Establish “Business Risk Management Committee” headed by CEO
  - Create list of business risks; discuss policy response by top-level management

## “Business Risk Management Charter”

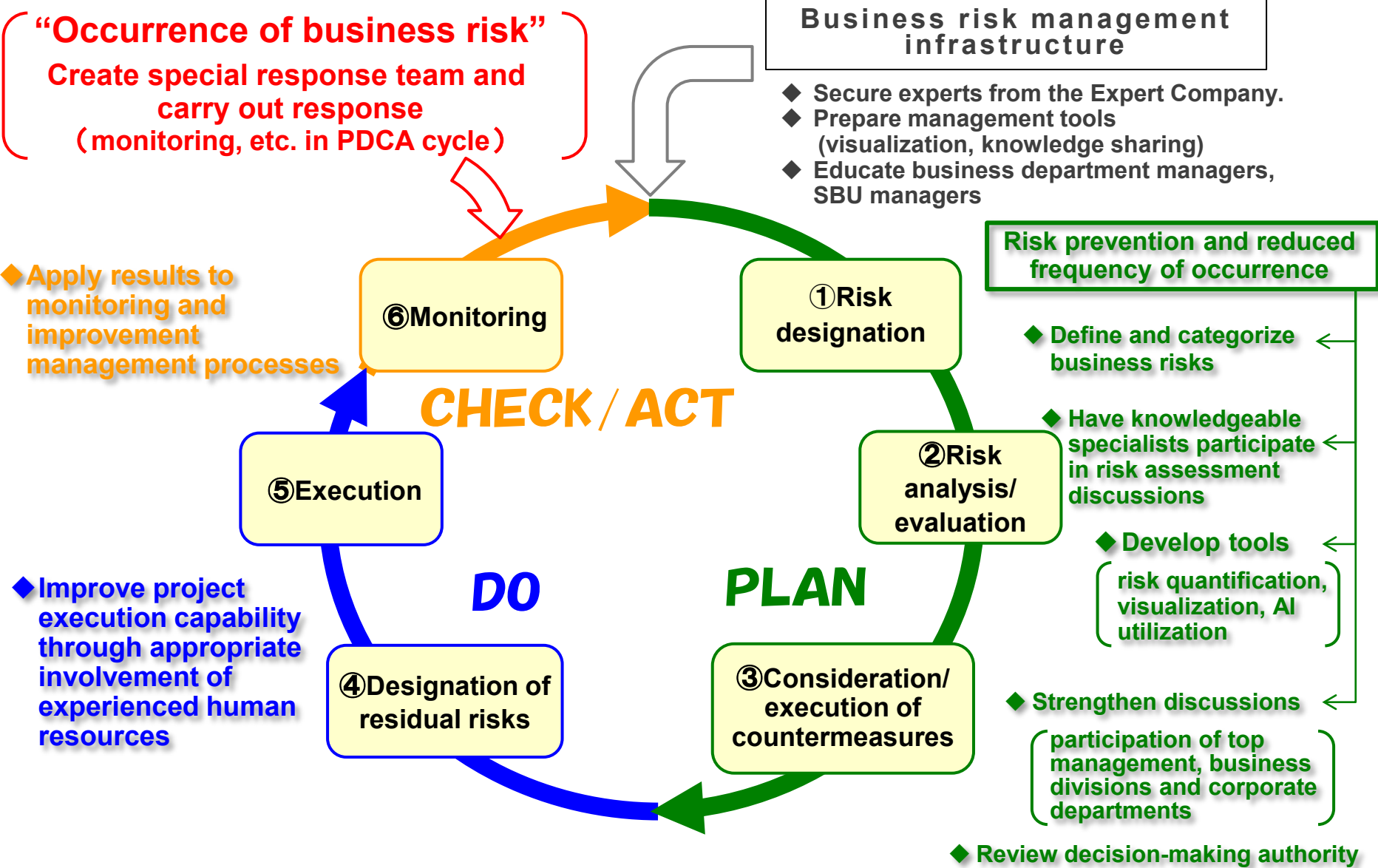




## Business Risk Management Committee Structure:

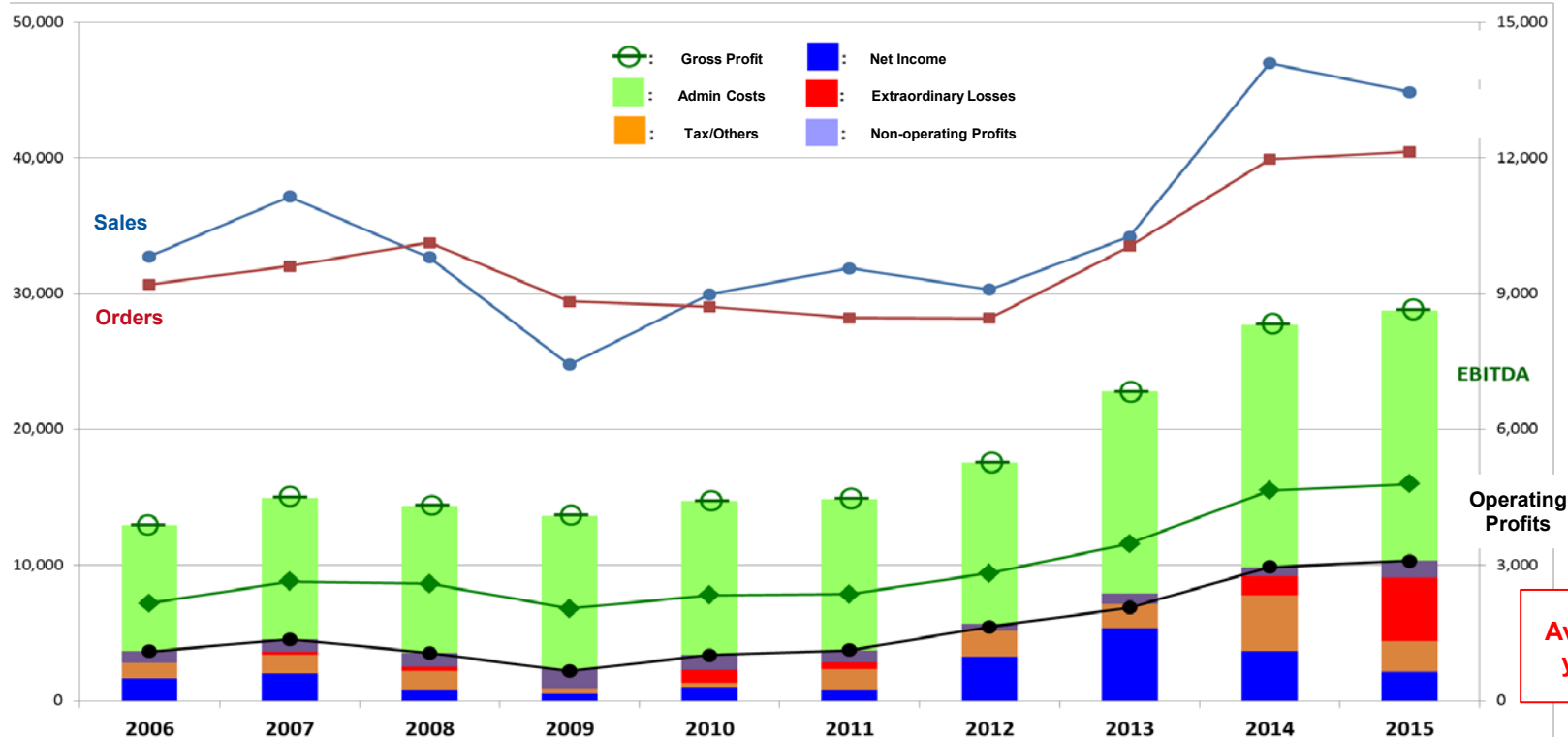


# III-3. Reinforcement of process



# IV-1. Summary: Anticipated results

**Accelerate activities of 2015 Business Plan and, starting from the next business plan, aim to improve profit/loss by reducing annual extraordinary losses by more than half the average of the past 10 years (approx. ¥30 billion)**



Average of past 10 years: ¥60 bn/yr

Extraordinary losses (100m yen)	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Extraordinary losses (100m yen)	180	300	650	160	440	450	60	1,300	860	1,550

# IV-2. Summary : Execution schedule

	FY 2016	FY 2017	FY 2018~
<b>Measures being promoted</b>	<ul style="list-style-type: none"> <li>▼ Establishment of organization directed by CEO</li> <li>▼ Establishment of cruise ship business evaluation committee</li> <li>▼ Formulation of “Business Risk Management Charter”</li> <li>▼ Establishment of Business Risk Management Committee</li> </ul> <p style="text-align: center;">Swiftly set measures (see page 10) in place, and further enhance them</p>		
<b>Major existing risks</b>	<p><b>SONGS arbitration</b></p> <p><b>Cruise ship business</b></p> <p style="text-align: center;">(structural reform of commercial ship business)</p> <p><b>Deliberation and preparation</b></p>		<p><b>Realization of anticipated results</b></p>
<b>Future risk measures</b>		<p>Review system for promoting commercialization</p>	<p>Promote special measures for commercializing MRJ business</p>

Overall settlement to be reached by end of FY2016