

# Risk Management

## 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, 2022).
- 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 coun-

termeasures. 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	<ul style="list-style-type: none"> <li>• (Businesses that supply made-to-order products to infrastructure-related companies and government entities and account for some two-thirds of consolidated revenue)</li> <li>• Revenue recognition delays due to project delays</li> <li>• Travel restrictions, supply chain backups</li> <li>• Delays in contract negotiations or order bookings processes</li> <li>• (Businesses related to commercial aircraft)</li> <li>• Impacts on production or service businesses due to, e.g., airlines' capex cuts</li> </ul>	<ul style="list-style-type: none"> <li>• Took action to strengthen earnings power                             <ul style="list-style-type: none"> <li>■ Invested in markets with favorable growth prospects, strengthened sales networks, shifted toward service businesses</li> <li>■ Reduced fixed expenses, including through staffing measures; furloughed employees</li> <li>■ Adjusted plants' capacity utilization/production, reduced expenses paid to external suppliers, revised investment plans, effectively utilized surplus resources, utilized government subsidy programs</li> </ul> </li> <li>• Established work-from-home environment, augmented tools, modified systems</li> </ul>
Changes in business environment	<ul style="list-style-type: none"> <li>• Constraints on negotiations and supplier selection, etc. due to disruption of the global economy associated with the protraction of the invasion of Ukraine and progression of economic decoupling due to conflict between the United States and China</li> <li>• Rapid fluctuation of exchange rate and rise in raw material prices</li> <li>• Loss of competitiveness due to, e.g., intensification of labor shortages or hollowing out of manufacturing sector in Japan</li> <li>• Contraction in businesses' scale and/or inability to recoup invested capital due to reduction in demand for products or services caused by growing environmental consciousness</li> <li>• 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</li> <li>• Loss of market competitiveness or opportunities to win orders due to greater-than-expected difficulty complying with environmental regulatory tightening</li> <li>• Recognition of impairment losses due to mergers, acquisitions and/or alliances' underperformance of expectations</li> </ul>	<ul style="list-style-type: none"> <li>• Collection of information on global conditions and laws and regulations of each country, and implementation of action based on this</li> <li>• 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&amp;D or capex</li> <li>• Developed products/services by cultivating businesses in new domains or collaborating across existing businesses, spearheaded by Growth Strategy Office established in April 2020</li> <li>• Facilitated PMI*<sup>1</sup> through, e.g., better upfront screening and monitoring of M&amp;A deals/alliances</li> </ul> <p>*<sup>1</sup> Post Merger Integration</p>

Key risks	Potential impacts on financial condition and/or operating performance	Countermeasures
Disasters	<ul style="list-style-type: none"> <li>● 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</li> </ul>	<ul style="list-style-type: none"> <li>● 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</li> <li>● 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</li> </ul>
Product/service-related problems	<ul style="list-style-type: none"> <li>● Cost overruns, payment of damages to customers, impairment of public reputation and/or loss of societal trust due to, e.g., the occurrence of 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 MHI's production activities or products/services' availability to customers resulting from a supplier's inability to supply specific parts/materials or the occurrence of quality defects caused by suppliers or vendors</li> </ul>	<ul style="list-style-type: none"> <li>● Instituted and enforced various regulations, built and strengthened operational risk management regime</li> <li>● Individually screening incoming orders before acceptance, monitoring fulfillment process after acceptance</li> <li>● Conducting training for project/department managers, holding product safety seminars on ongoing basis</li> <li>● 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</li> </ul> <p>▶ For details, please see page 76.</p>
Intellectual property disputes	<ul style="list-style-type: none"> <li>● 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</li> <li>● Obstruction of business operations due to inability to in-license technology from third party</li> </ul>	<ul style="list-style-type: none"> <li>● Avoiding IP disputes by thoroughly researching IP owned by others at the product planning, design and production stages</li> <li>● Upgraded IP staff's expertise through education and HR development</li> </ul>
Cybersecurity problems	<ul style="list-style-type: none"> <li>● 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</li> <li>● Disruption of operations due to, e.g., disablement of computers or servers</li> <li>● Investigations by authorities, claims for damages by, e.g., customers</li> </ul>	<ul style="list-style-type: none"> <li>● Implemented cybersecurity controls (standards, safeguards, self-assessments, internal audits), incident response measures, etc. by building a cybersecurity regime under direct supervision of the CTO*<sup>2</sup></li> </ul> <p>*<sup>2</sup> CTO: Chief Technology Officer</p>
Legal/regulatory violations	<ul style="list-style-type: none"> <li>● Administrative sanctions imposed by government authorities, including, correction orders, penal fines, non-penal fines, suspension of operations and/or export bans; claims for damages from authorities or interested parties</li> <li>● Disruption of operations, impairment of public reputation and/or loss of societal trust</li> </ul>	<ul style="list-style-type: none"> <li>● Instituted and enforced MHI Group Global Code of Conduct and various regulations applicable to all Group personnel</li> <li>● Regularly holding Compliance Committee meetings, established internal compliance reporting program</li> <li>● Disseminating messages from senior management on strict legal/regulatory compliance, conducting various internal trainings on ongoing basis, augmenting training curricula, conducting internal audits</li> </ul> <p>▶ For details on compliance, please see page 78.</p> <p>▶ For details on information leaks, please see page 79.</p>

## Risk Management

### Business Risk Management

Throughout its history, MHI Group has achieved sustained growth by taking up diverse new challenges and initiatives in numerous business areas. At the same time, on occasion we have experienced losses on a large scale. In recent years especially, with the globalization of business activities, the expanding scale of individual projects, and ongoing development of increasingly complex technologies, the scale of attendant risks is becoming larger than ever before.

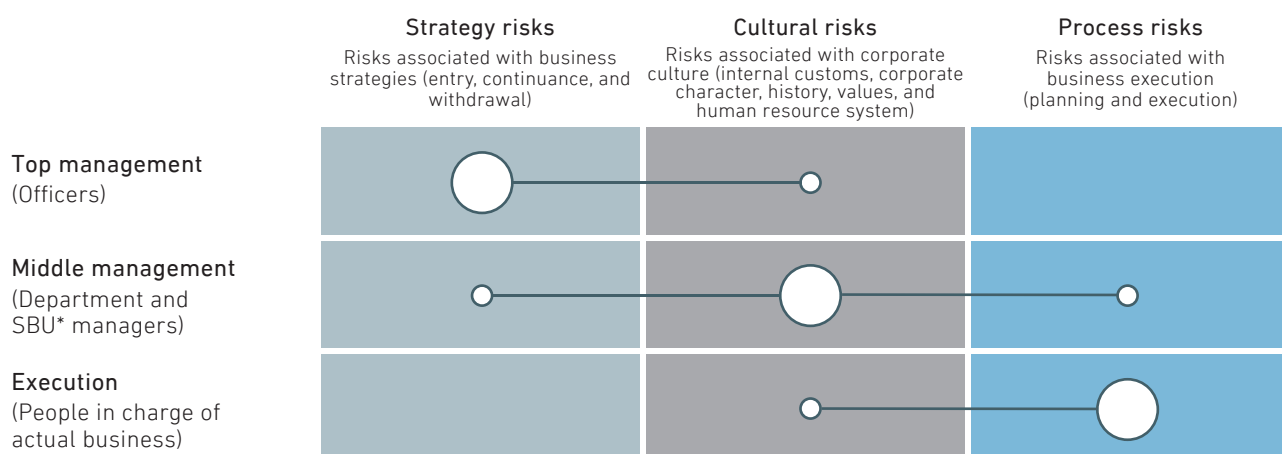
In order for MHI Group to mark sustained growth amid an ever-changing business environment, it is necessary to continue to take up challenges in new fields, new technologies, new regions, and new customers as well as to improve and strengthen operations in its existing business markets. Such challenges will entail business risks, and a company’s ability to curb risks yields significant influence on its business results and growth potentials.

To promote challenges of this kind and prepare for the next leap into the future, MHI Group, applying its past experience and lessons learned, aims to create the mechanisms that will ensure the effective execution of business risk management. At the same time, we reinforce advanced, intelligent systems and process monitoring, both of which support top management’s strategy decisions. Through these approaches, we will pursue “controlled risk-taking” that will enable us to carry out carefully planned challenges toward expanding our business.

### Outline of Business Risk Management

We believe that risk management is a part of governance and functions only when the elements of systems and processes, corporate culture, and human resources are in place. For our Group to succeed in the global market, we need to take bold and daring risks, but we also need to manage those risks. That is the perfect combination for continually increasing our corporate value. In this sense, it is very important that all business participants, from people engaged in the actual business to management, comprehend and control risks in business, from processes to strategies. For details, please see the chart below (Matrix of Business Risk Management).

#### ▶ Matrix of Business Risk Management



\* SBU: Strategic Business Unit (business unit in the Strategic Business Assessment System)

## Business Risk Management Structure

Through the following measures, MHI Group is pursuing more organized business risk management and clarifying the roles of management, business segments, and corporate departments.

### 1

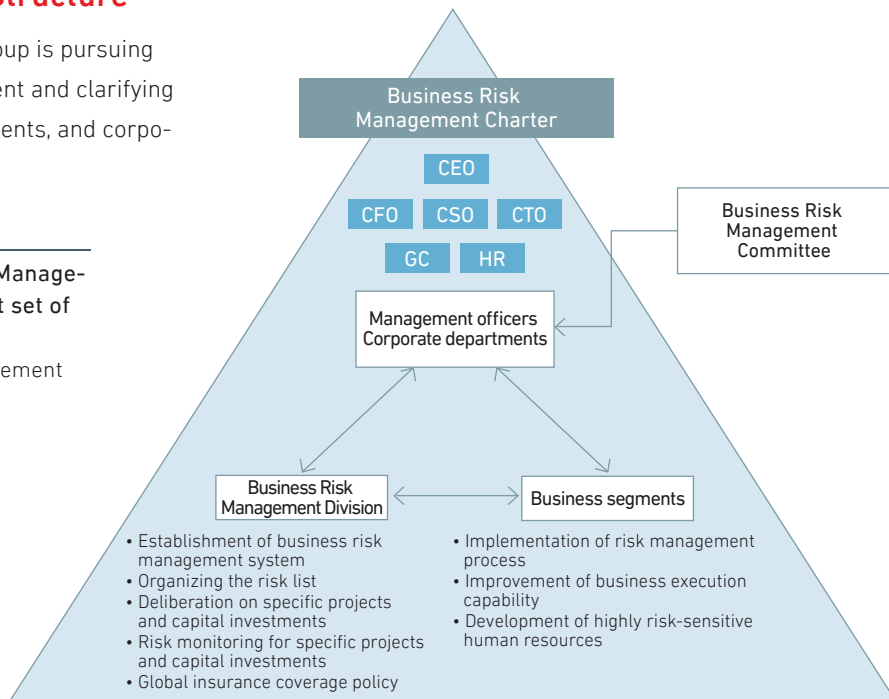
Observe and practice the Business Risk Management Charter as the Company's foremost set of rules

→ Clarify, observe, and practice risk management targets, etc.

### 2

Hold meetings of the Business Risk Management Committee

→ Share information on important risks and discuss response policy by top management



## Content of Business Risk Management Activities

With the Business Risk Management Department acting as the responsible department, MHI Group engages in business risk management activities bringing together management, business segments, and corporate departments.

The chart on the right (Business Risk Management Process) outlines specific activities. In addition to improving systems and processes to prevent business risks, reduce the frequency with which such risks manifest themselves, and consider and implement measures, we also develop human resources in charge of business risk management and cultivate a culture of responding to risks through such efforts as providing training with the involvement of the Group's management team.

### Business Risk Management Process

#### Business risk management infrastructure

Establish a participation system for experts  
Prepare risk management tools (visualization, knowledge sharing)  
Educate business department managers, SBU managers

