Risk Management

MHI Group: Risks and Responses

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 listed below.

Key Risks

Changes in the business environment	Intellectual property disputes
Disasters	Cybersecurity problems
Product/service-related problems	Legal/regulatory violations

For details, please refer to MHI Financial Report (pages 4–8)

We have established management processes for identifying, assessing, and cataloging operational risks on an annual basis. To identify relevant risks, we prepare a comprehensive list of risks that covers the risks generally relevant for companies, including changes in the external environment. Based on this list, we identify specific risks that have the potential to occur within the next 10 years. For quantifiable risks, we assess the probability of such risks occurring and the magnitude of impact when they materialize, taking into account the effectiveness of countermeasures, and organize them into a risk map. Other risks are identified and organized qualitatively. The identified and visualized risks are utilized as opportunities for creating new business opportunities. They are reported to the Board of Directors and incorporated into the business planning process and its follow-up cycle.

In addition to addressing major risks, the Group works to avoid and mitigate risks at the individual business–unit level, taking into account the type and nature of each risk. At the same time, we strive to minimize the impact should any risk materialize.

Basic Approach to 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.

For the Group to mark sustained growth amid an everchanging 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 wields significant influence on its business results and growth potential.

To link challenges of this kind to the next leap into the future, MHI Group, applying its past experience and lessons learned, has established the "Business Risk Management Charter" and will promote the creation of mechanisms that will ensure the effective execution of business risk management and the cultivation of a culture responsive to risks. We will also 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.

When it comes to business risk management, attention often focuses on risks within business processes, such as costs and commercial terms. However, based on lessons learned from past loss incidents, we believe that risks stemming from business strategy and corporate culture—which are handled at the management level—should also be addressed through risk management.

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 the 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 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

	Strategy risks Risks associated with business strategies (entry, continuance, and withdrawal)	Cultural risks Risks associated with corporate culture (internal customs, corporate character, history, values, and human resource system)	Process risks Risks associated with business execution (planning and execution)
Top management (Officers)	●	●	
Middle management (SBU* managers)	●	●	●
Execution (People in charge of actual business)		●	●

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

Risk Management

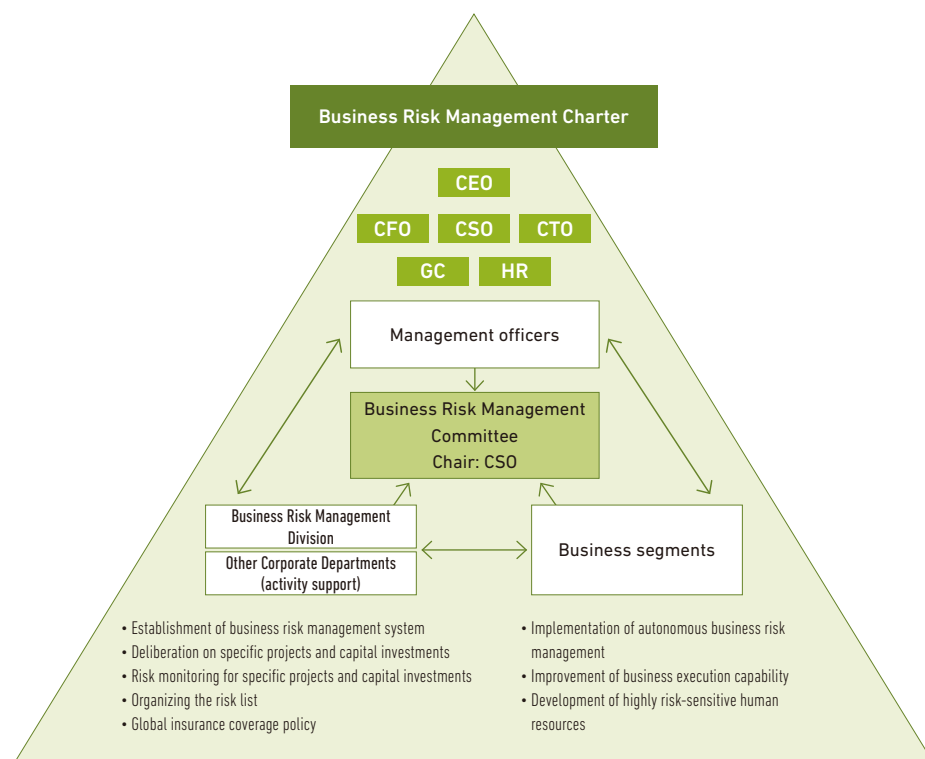## Business Risk Management Structure

Through the following measures, MHI Group is pursuing more organized business risk management and clarifying the roles of management officers, business segments, and corporate departments. In addition, the Business Risk Management Department is responsible for business risk management, with management officers, business segments, and corporate departments working in unison.

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
• Report particularly important matters to the Board of Directors
• Held four meetings in FY2024

Business Risk Management Charter

CEO
CFO CSO CTO
GC HR

Management officers

Business Risk Management Committee Chair: CSO

Business Risk Management Division
Other Corporate Departments (activity support)

Business segments

• Establishment of business risk management system
• Deliberation on specific projects and capital investments
• Risk monitoring for specific projects and capital investments
• Organizing the risk list
• Global insurance coverage policy

• Implementation of autonomous business risk management
• Improvement of business execution capability
• Development of highly risk-sensitive human resources

Business Risk Management Process

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

The chart below (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 develop human resources in charge of business risk management and cultivate a culture of responding to risks through such efforts as providing training for SBU manager candidates.

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

Apply results of monitoring and improvement to management processes

Monitoring
Risk designation
Risk analysis/ evaluation
Consideration/ execution of countermeasures
Designation of residual risks
Execution

CHECK/ACTION
PLAN
DO

Consideration of Risk Response Policy (reduce, avoid, transfer, and retain)

Improve project execution capability through appropriate involvement of experienced human resources

Business risk prevention and reduced frequency of occurrence