Risk Management

The MC Group’s Risk Management Framework

As the MC Group expands its diverse range of businesses globally, it faces a variety of risks. To maintain our financial soundness and improve our sustainable corporate value, it is crucial that we appropriately manage and respond to various risks. This section explains the MC Group’s Risk Management Framework and relationship measures.

Risk Management Framework and Organization Model

Business Groups and dedicated corporate departments that deal with specific risks collaborate on the development of operations and management frameworks that enable appropriate response to risk.

1. Responding to Market Risk

MC broadly divides market risk into four types: commodity market risk, foreign exchange risk, interest rate risk and stock price risk. This section explains the impact of these risks on our business as well as our status in managing these risks.

2. Response to Foreign Exchange Risk

• MC conducts foreign currency-denominated settlements in import/export and trade transactions with foreign countries, resulting in exposure to the risk of exchange rate fluctuations. In response, we employ hedging measures such as forward exchange contracts. However, there is no guarantee that MC can fully avoid foreign exchange risk.

3. Response to Interest Rate Risk

• A significant proportion of the interest-bearing liabilities held by MC corresponds to trade receivables and loans exposed to the effects of interest rate fluctuations. While the interest burden will increase if interest rates rise, income gained from these assets will also decrease, offsetting the risk of interest rate fluctuations.

4. Approaching Credit Risk

• MC sets upper limits on credit extended to third parties in order to manage the contract and credit risk involved in transaction credit, loans, guarantees and investments in unrelated companies. In addition, each business partner is assigned a business partner rating based on an in-house rating system.

• We designate business partners that have a significant impact on the Company as targets for priority management, and regularly monitor our guidelines on risk money (limit), returns, credit protection, etc.

Individual Project Approval Authority

- Approval authority is categorized according to amount limits and ratings.

Approach to Credit Risk Management

• Estimating appropriate credit costs and promoting improvements in the quality of loans through a reserve system that uses ratings.

Note: The following is based on the framework for financial statements prepared for screening purposes. When revised, it may be necessary to adjust the content in each department that is impacted by such a change.
Risk Management

3 Responding to Business Investment Risk

To manage business investment risk properly, MC has established a screening process to review and make decisions on new, existing, re-profiling and each other type of projects.

| New projects | Business plan formulation | Evaluate new and existing investment and finance proposals by comprehensively evaluating qualitative aspects in terms of the invested capital and its return determined on the basis of the characteristics of each business, in addition to evaluation of qualitative aspects, including consistency with the business strategy of each Business Group, as well as risk locations and countermeasures.
| Existing projects | Management plan formulation | Management plan formulation
| Replacement projects | Review regarding continuation of investments | Conduct qualitative and quantitative evaluations of new investment and finance proposals based on the priority order of Business Group strategies and promote a healthy business metabolism.

Screening process for proposals

- Proposal application
- Division COOs
- Group COOs
- Group Advisory Committee, etc.
- General Manager, Group CEO Office/Division COOs/Corporate staff departments
- Corporate staff departments

MC delegates authority according to the financial scale of each Business Group, while the Investment Committee discusses all new investment and finance proposals as well as sales and withdrawal proposals prior to deliberation by the Executive Committee and the Board of Directors. The Corporate Functional Officer (CFO) serves as the chairman of the Investment Committee. To make full use of the knowledge of each Business Group and the expert viewpoints of each corporate Committee and the Board of Directors, the Corporate Functional Officer (CFO) serves as the chairman of the Investment Committee. The Corporate Functional Officer (CFO) serves as the chairman of the Investment Committee. The Corporate Functional Officer (CFO) serves as the chairman of the Investment Committee.

- Application for policy/Applications for implementation
- Executive Committee
- Board of Directors

4 Responding to Country Risk

MC has established a Regional Strategy Committee and a country risk countermeasure system to properly assess and manage country risk. We also enact appropriate risk hedging measures, such as insuring projects.

Regional Strategy Committee
- The Regional Strategy Committee is chaired by the Corporate Functional Officer (Global Strategy). Its responsibilities include assessing the risk situation in various countries and establishing and managing the country risk countermeasure system.

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<tr>
<th>Chairperson</th>
<th>Corporate Functional Officer (Global Strategy)</th>
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<tr>
<td>Members</td>
<td>General Manager, Audit &amp; Supervisory Board Members Office; General Manager, Global Risk &amp; Insurance Management Department; related corporate general managers; Business Group CEO Office; general managers, etc.</td>
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Country Risk Countermeasure System
- Under the country risk countermeasure system, MC controls the accumulation of risk through methods such as setting categories and ceilings based on the credit ratings of each country.
- In addition to risk management through the country risk countermeasure system, MC closely monitors the impact of global economic trends and shifts in international affairs on the political and economic situation of each country in order to flexibly respond to risks based on the current international situation.

5 Responding to Compliance Risks

Based on internal rules and regulations related to compliance, MC has established a Compliance Framework and provides support for a Compliance Risk Management Framework on a consolidated basis. Compliance-related measures are enacted through discussions by the Compliance Committee, and these measures are reported to the Board of Directors annually in June.

The Chief Compliance Officer also serves as the chief executive officer for security trade control, trade procedures management, and sanctions management, strengthening the centralized management system for compliance, including trade compliance.

MC has also set up various whistleblowing helplines and is working to detect and prevent compliance issues at an early stage.
Response to Risks from Natural Disasters and Other Types of Disasters

Crisis Management on a Consolidated Basis/Business Continuity Management (BCM)

MC has built up a structure for securing the lives and safety of employees and their families as we respond on a consolidated basis to all crises that impact our profit and business continuity (all-hazard approach) by linking together each Business Group and Regional and National Crisis Management Offices under the management and supervision of the Emergency Crisis Management Officer.

Crisis Management Structure on a Consolidated Basis

MC has built up a structure for securing the lives and safety of employees and their families as we respond on a consolidated basis to all crises that impact our profit and business continuity (all-hazard approach) by linking together each Business Group and Regional and National Crisis Management Offices under the management and supervision of the Emergency Crisis Management Officer.

All-Hazard Approach

Based on the all-hazard approach, MC has built up an internal structure that anticipates all kinds of risks, such as major natural disasters, acts of terrorism, riots, new infectious diseases, supply chain disruptions, legal transgressions, and cyber incidents. Under usual conditions, we build up and establish various crisis management measures and structures needed in the event that a crisis does occur so that we can ensure the safety and ascertain the status of all concerned as part of our initial response, and then act promptly to maintain and recover the infrastructure necessary for business continuity.

In particular, in the event of a serious incident impacting the lives and safety of our employees, as well as continuity of critical business operations, we will respond under the companywide direction of the Emergency Crisis Management Officer, while moving forward with our consolidated business continuity management (BCM) process established for major crises.

Specific Crisis Response Measures and Identifying Future Issues

Q: How has the response to COVID-19 been strengthened?

A: With regard to COVID-19, there are risks such as the emergence of mutant strains, so we believe it is necessary to remain vigilant in our response. We have been working to ensure the safety of our employees, both in Japan and overseas, from the perspectives of preventing both employee infection and the spread of infection and appropriate business continuity. Our activities center on the Emergency Crisis Response Headquarters, which includes medical personnel, while placing the highest priority on the safety of employees. And, in response to the status of infection, the requirements of the Japanese government and local authorities, as well as the situation and regulations in each country, we have been taking thorough infection control measures. During implementing the necessary measures on a case-by-case basis, and confirming their safety to ensure appropriate business continuity. We will continuously strengthen our response capabilities on a consolidated basis by reviewing our business structure, establishing backup systems, and revising our BCP and other response manuals to minimize business interruption and the impact on our business activities at our company and each of our group companies. With regard to our responses to infectious diseases that pose a new threat to our corporate activities, such as the global spread of monkeypox infection, we will take appropriate measures in a timely manner by utilizing the knowledge we have gained through our response to COVID-19.

Q: How do you respond when the security situation worsens overseas?

A: Because the global situation continues to be difficult to predict, it is becoming increasingly important to ensure thorough crisis management overseas to minimize the impact of conflicts, terrorism, demonstrations, riots, etc. in various parts of the world. We have a worldwide crisis management system centered on the Emergency Crisis Management Headquarters. In the event of an emergency, this Headquarters cooperates with the Japanese government and diplomatic missions abroad, as well as with related regions and offices, assesses the situation and implements the necessary measures to confirm and ensure the safety of employees, then families, and local staff. During normal times, we always strive to keep abreast of the political and security situation in cooperation with related regions and offices, and prepare for contingencies by conducting periodic inspections of safety measures, developing BCPs, and conducting drills and exercises on a consolidated basis.

Q: What do you see as your future priorities in terms of risk management and BCM?

A: MC faces an increasingly diverse range of risks in the business environment, including COVID-19, strengthening security situations in overseas countries and other incidents. We must continually strengthen our basic risk management measures, and we will further strengthen and enhance our business continuity preparedness at the consolidated level based on an all-hazard approach to apply the lessons learned and experience gained from each crisis.

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