

Summary of the Q&A at the Sustainability Briefing (Institutional Investors / Analysts)

Date and Time:	Tuesday, March 26, 2024 from 10:00 a.m. to 11:30 a.m.
Venue:	Head Office of Mitsubishi Electric Corporation (Online briefing)
Respondents:	Kei Uruma, Representative Executive Officer, President & CEO Satoshi Takeda, Executive Officer, CSO

- Q. Regarding Circular Digital-Engineering, the area of the factory automation systems business comes to mind as a typical example, but what other businesses and business models can be considered for its application?
- A. In the building systems business, we have already developed services that utilize data, such as remote monitoring of the operational status of elevators during an earthquake to automatically restore their operation. In the railway-related business, in cooperation with railway companies, we are working to detect abnormalities and prevent problems by acquiring and monitoring train running data and other data. In addition, in power-related business, we are developing a solution for monitoring renewable energy generation status and optimizing power distribution among multiple locations, as one of its E&F (Energy & Facility) solutions. First, we will expand the scope of data acquisition from equipment, collect data in the digital space, and link it to the development of equipment and solutions in order to realize Circular Digital-Engineering. (Uruma)
- Q. Sustainability-related products include FA Systems, Air Conditioning System & Home Products business and power equipment products such as transformers, and global demand for them is increasing. I understand that Mitsubishi Electric mainly supplies products to the domestic market at present, but are you considering overseas expansion in the future?
- A. We do not have any particular plans for aggressive overseas expansion of the transformer business. We recognize that it will be difficult to continue to generate added value in this business and link it to corporate growth. While orders for transformers for high-voltage for power systems are growing, orders for distribution transformers are stable, so we will consider how we can increase the value of Mitsubishi Electric's business in the future. (Uruma)
- Q. When it comes to addressing social challenges through the provision of systems and solutions rather than equipment alone, such as multi-region EMS and ZEB Solutions, Mitsubishi Electric may not yet be large enough in terms of IT services and other areas. How will Mitsubishi Electric fill this gap as it aims to become a Circular Digital-Engineering company?
- A. Circular Digital-Engineering has two cores. The first consists of the analysis of component usage data and the use of that data to evolve the components themselves. The second consists of the utilization of them to provide new solutions. One of the challenges in providing these solutions is the lack of human resources with digital skills. In April last year, we established the "DX Innovation Center" in Yokohama as a base to promote the development of new technologies centered on cloud technology and AI. Human resource development and reskilling of engineers are being addressed at the center, and we plan to expand the center this year. With the center at the core, we intend to strengthen the software part of our Circular Digital-Engineering activities. (Takeda)

Q. You have published KPIs related to Diversity, Equity & Inclusion (DE&I), but I would like to know if you have any KPIs further broken down or commitments on a fiscal year basis.

A. No KPIs have been set on a fiscal year basis. For the past two and a half years, we have been working on transforming internal communication, centering on the transformation project, “Team Sousei (Creation).” We feel that there have been significant changes among the senior management through town hall meetings and dialogues with the divisions under their control. The transformation project is scheduled to be dissolved in March 2025 as originally planned. During the remaining one year until the dissolution date, each division will take the initiative to change what needs to be changed, aiming at becoming a self-driven organization, and the transformation project will play a supporting role. Ongoing initiatives are necessary for transformation, and after the dissolution of the project, the Sustainability Innovation Group will play a central role in this effort. (Uruma)

Q. What are Mitsubishi Electric's strengths in data analysis compared to its competitors? What are the challenges and what do you want to complement by developing human resources in the future?

A. Data has value only when the meaning it possesses is analyzed. Mitsubishi Electric has accumulated experience in applications, and we believe that collaboration between data engineers and application engineers will give us an advantage. The challenge is that there are not enough data engineers who have both the latest technological skills and a proven track record. The key to developing these engineers is to secure and train data engineers who can collaborate with other engineers who are well-versed in each business, so initiatives to develop a collaborative environment are also important. (Takeda)

Q. Mitsubishi Electric already has IoT platforms like ClariSense, but I would like to know how that is related to Ville-feuille and the other IoT platforms you introduced today.

A. Each business has a different IoT platform, and we are currently aiming for a state where each platform can be flexibly linked through an Application Programming Interface (API) and other means. We believe that by doing so, the value of having businesses in multiple fields will fully emerge. Ultimately, we hope to provide added value by exchanging data across business divisions. (Takeda)

Q. Regarding the diversification of human resources, why is it necessary for management to utilize women and non-Japanese people and how can they be utilized in management? I do not see any problem with Japanese men occupying managerial positions in what are generally called large companies, including Mitsubishi Electric, considering the current situation and corporate culture, but are you aware of any related risks?

A. Until now, senior management has been dominated by men who have been with Mitsubishi Electric for a long time, but we believe that this has made it difficult to detect developments outside the company in a timely manner. Since I assumed the position of president, the company has promoted a woman and the person from outside the company to the position of executive officer, and this has had the effect of invigorating discussion at board meetings. I believe that having people in senior managerial positions who have firsthand experience with mega-trends and developments, regardless of nationality or gender, will help us to enhance our thinking. (Uruma)

- Q. Regarding resources and capabilities for data utilization, will data engineers be assigned to business divisions or will they be assigned to a specialized organization that will be linked across the entire company? Also, when providing upstream services, such as Circular Digital-Engineering, I think that something similar to consulting proposals will be necessary, but will the resources for such proposals be assigned to business divisions or to a specialized organization? I would like to know about the assignment of human resources.
- A. The "DX Innovation Center" is the horizontal link across the entire company. Although reskilling and hiring should be done across the entire company, business divisions will ultimately be responsible for developing the employees, since value cannot be generated unless it is combined with the expertise of each business division. Rather than providing products, data, and solutions separately, we would like to accumulate knowledge so that each business division can propose solutions comprehensively, starting from solutions to customer's challenges. (Takeda)
- Q. Do you use an internal or external server for data analysis?
- A. Our data will be stored in a data center owned by Mitsubishi Electric. On the other hand, in the case of collaboration with a customer, we will store data in an appropriate location upon consultation with the customer. (Takeda)
- Q. Since Mitsubishi Electric's strength lies in components, I believe that you should focus on components rather than systems and solutions like e-F@ctory in your efforts to address social challenges, but what is your management approach?
- A. We believe that data is important for addressing social challenges through our business. Until now, most of our business has been selling off components, but we would like to evolve our components by analyzing and utilizing the data that comes out of the components we deliver to our customers. In this process, we will consider how we want to be 10 years from now. In some cases, we will evolve existing businesses in order to transform them into a Circular Digital-Engineering company, while there is also a possibility that we will add new businesses to our portfolio that are necessary for addressing social challenges. (Uruma)
- Q. You mentioned that you will incorporate outside knowledge in terms of human resources, such as open innovation and job-based hiring, but what is the current ratio of new graduates to mid-career hires? Will you take any measures to increase mid-career hires in the future?
- A. The ratio of mid-career hires in the recruitment plan for FY2025 is approximately 48%. Mid-career hiring is a valuable means of securing human resources and will be steadily increased as needed. Regarding promotion to managerial positions, we do not distinguish between new graduates and mid-career hires but rather evaluate each individual. As for female mid-career hires, we need to consider how we can help them understand the attractive features of Mitsubishi Electric, given the small number of female employees we have had so far. (Uruma)
- Q. Regarding the Circular Digital-Engineering business, I believe that a major challenge in utilizing data is to obtain customers' consent for data provision. How will you deal with this challenge?
- A. In order for us to receive data from customers, we need to gain their understanding of the benefits of doing so. For example, in the case of the railway-related business I mentioned earlier, we explain to customers that we want to use the data for preventive maintenance, and we ask them to provide us with the data after they have understood the benefits of doing so. (Takeda)

- Q. In response to tight power demand, I think there is a demand for the renewal of power equipment, such as clean transformers. How does Mitsubishi Electric perceive this situation?
- A. Demand for power equipment is growing worldwide. Demand is increasing, including in areas such as reducing the power consumption of data centers. However, sustainable business will be difficult if we only continue conventional business that requires improvement in the performance of equipment such as power efficiency, so we will respond firmly to this demand. (Takeda)

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