

**Summary of the Q&A at the Consolidated Financial Results Briefing for Fiscal 2024
(Institutional Investors/Analysts)**

Date and time:	Friday, April 26, 2024 from 3:30 p.m. to 4:50 p.m.
Venue:	Head office of Mitsubishi Electric Corporation (Online briefing)
Respondents:	Kei Uruma, Representative Executive Officer, President & CEO Kuniaki Masuda, Executive Officer, CFO

- Q. To what extent have the effects of restructuring been factored into the 400.0 billion yen operating profit forecast for FY25?
- A. Slightly less than 10%. We will present specific details when the time comes. (Uruma)
- Q. You stated that demand for the factory automation systems business is expected to recover from the second half of FY25, but from which sectors do you see the recovery coming? Can you share with us your view of market conditions, including the situation by region?
- A. Although it is difficult to forecast market conditions, we expect demand to recover from the second half of FY25, mainly in semiconductors, and we have expectations for recovery because that industry has a large ripple effect. In the current situation, demands for building, smartphone, and machine tool-related are relatively strong, but the rest of the market is very severe. Since our core market is East Asia, we expect demand to pick up mainly in East Asia. (Masuda)
- Q. Your forecast for revenue in the air conditioning systems & home products business for FY25 is 1.6% growth from the previous year, but what is the forecast in local currency terms? In addition, the increase in operating profit appears to be somewhat large relative to the increase in revenue. What is the probability of achieving the operating profit target, and what are the keys to improving P&L?
- A. Since there is about 50.0 billion yen of foreign exchange fluctuations on revenue, we expect growth in local currency terms due to factors such as price hikes and increased volumes. As for region-specific performance in FY24, the situation for domestic residential air conditioners and North America was poor. In FY25, we expect revenue to increase in most regions. In Europe, the situation remains challenging for Air To Water (ATW), but revenue from industrial air conditioners is forecast to improve. We also believe IT-related air conditioner demand will be strong. Overall, we expect revenue to increase, including in ASEAN and India, as we expect industrial air conditioners to have strong demand and residential air conditioners to face severe market conditions. Regarding price hikes, we have been increasing prices for industrial and residential air conditioners in North America since April 2024. Expenses will be allocated after rigorously scrutinizing priorities. (Masuda)
- Q. Is my understanding correct that in Q4 FY24, the building systems business recorded a gain of about 20.0 billion yen on the sale of assets? Were there any other transient factors? Are there any other transient factors affecting profit/loss for FY25 that you can share? What is the breakdown of the projected 23.2 billion yen increase in operating profit from the previous year in the "Others" segment?

- A. The building systems business had a gain of about 20.0 billion yen from the sale of land in FY24. In FY25, the effects of undisclosed restructuring in the "Others" segment have been incorporated into P&L. (Masuda)
- Q. Regarding the breakdown of changes in operating profit in the FY25 forecast, of the 104.5 billion yen for volume changes, etc., what are the amounts for the business scale increase and for price hikes, respectively? What are the expected levels of price hikes for each business?
- A. In FY25, we expect price hikes of slightly more than 30.0 billion yen, which includes many price hikes in the factory automation systems business that have thus far been comparatively not reflected. The rest of the changes are based on other factors. We will continue to work toward further price hikes in other businesses as well. (Masuda)
- Q. Your plan for an operating profit of 400.0 billion yen for FY25 is much higher than the stock market has assumed. What is your plan for achieving the medium-term management target of a 10% operating profit ratio?
- A. We have shifted from management focused on revenue and profit to B/S management, and we will ensure that resources are invested with an emphasis on businesses that are expected to demonstrate results. We are currently considering measures to achieve the medium-term management target for FY26 and will share the details on IR Day. (Uruma)
- Q. The operating profit of the factory automation systems business in Q4 FY24 was half compared to Q3. Will you be able to restore it in FY25, given that the competitive environment is intensifying, and what is the probability of doing so? Also, what are the operating status and BB ratio for Q4?
- A. In FY24, we also made investments at the end of the fiscal year and proceeded with what needed to be done. In FY25, in addition to price hikes, we want to carefully select expenses. As for the price hikes, it took some time for the factory automation systems business due to the order backlog, but they started to take effect in the middle of FY24. From FY25, we will reap the benefits of the price hikes for some products, which we previously announced but which did not show effects in FY24. In addition, during Q4 FY24, orders were up slightly, but the factory operating level was low. It will be necessary to closely monitor to what extent the order status is sustainable. (Masuda)
- Q. What was the status of the air conditioning systems & home products business in Q4?
- A. In North America, sales of residential air conditioners were very weak. Although agency inventories remain, we recognize that they have been normalized considerably as of the end of Q4, and we have expectations for the normalization of agency inventories as well as the Inflation Reduction Act (IRA) going forward. In Europe, ATW sales were tight, and sales of residential air conditioners other than ATW were also difficult. Demand for ATW decreased due partly to changes to and elimination of subsidies, economic trends, and lower gas prices, but there is regional variation in demand, with some countries discontinuing subsidies while others, such as the U.K., continue to provide them. Sales of industrial air conditioners are relatively strong and there is strong data-center-related demand, and we believe these circumstances will lead to future business. Sales in India and Singapore are relatively strong, sales in ASEAN are fair to good, and sales in China are not good. In Japan, sales of residential air conditioners are sluggish, while sales of industrial air conditioners are relatively strong. (Masuda)

- Q. In the FY25 forecast, the "Others" segment shows an increase of 23.2 billion yen from the previous year, but does this amount represent sales of assets? Also, are the assets idle assets or will they change the overall structure of the B/S, such as the sale of a business?
- A. Since we have many affiliated companies, we believe that we must proceed with consolidation and elimination. We have factored in gains from business reorganization and so forth given the situation. (Uruma)
- Q. I understand the breakdown of the 104.5 billion yen for volume changes, etc., which is a profit increase factor in FY25, to be as follows: about 30.0 billion yen for price hikes, an amount of slightly less than 10% of operating profit for the effect of restructuring in FY25 minus about 20.0 billion yen for the gain from asset sales in the previous year as a transient impact, and others for volume changes, etc. Is this understanding of the roughly broken down composition correct?
- A. You have the big picture right. As other items, we will work on selective ordering and careful selection of costs. The amount also includes the effects of downsizing businesses that we previously decided to withdraw from. The difference between the effect of restructuring in FY25 and the gain of about 20.0 billion yen from the sale of assets in FY24 will not be a significant amount. (Masuda).
- Q. Are the price hikes in the factory automation systems business highly likely to be achieved because the business has won orders for products whose prices have already been increased, or will the business be building up more orders received from now on?
- A. Though not all, we have an idea of what level to expect. (Masuda)
- Q. During the Q3 FY24 briefing, you stated that you would like to show restructuring in the financial results briefing for FY24. What is the current progress? With stock market expectations ahead of us, what are your thoughts on future disclosures? Rather than presenting an overall plan for restructuring, will you mainly make announcements as projects emerge?
- A. We have consistently said that we will make an announcement by IR Day in May. We are preparing to announce our partnership strategy for the automotive equipment business by IR Day, with the goal of realizing partnerships that can create synergies. We understand your request regarding how to interact with the stock market, but our existing business has a very long history, and with the trust we have built up with our customers as well as taking into account our employees, we would like to make firm decisions one at a time before communicating them to you. (Masuda)
- Q. Pieces of restructuring are visible, such as the expected sale of assets for slightly less than 10% of the 400.0 billion yen in operating profit for FY25, but is this action the complete picture of restructuring? Will major reforms be presented in the future?
- A. Only some parts of the restructuring are concrete at the moment. Since we have many healthy and promising businesses, we do not believe that reforms to change the entire company are necessary. On the other hand, not all our businesses are highly competitive, and there is much room for improvement. We will strengthen the Mitsubishi Electric Group in the way we believe is best. (Masuda)

Q. You stated that you expect orders for the factory automation systems business to recover from the second half of FY25. What are the scales of the orders received in the first and second half of the year, respectively? In addition, what is the balance of the order backlog?

A. We do not expect the market to have a major recovery during the first half of FY25, but we expect a significant recovery during the second half of FY25. We have told our agencies and other partners to prepare for a reversal, and there may be some recovery in the first half of the year. The order backlog shows a decreasing trend. In Q1 FY24, there were approximately 5 months of orders remaining, but the backlog has been decreasing by about 1 month each quarter, and as of the end of Q4, the backlog was slightly more than 2 months, and approaching the optimal inventory level of 1.5 months. We will work with our partners to prepare for the next reversal. (Masuda)

Q. Regarding the FY25 forecast for the Semiconductor & Device segment, you expect revenue to remain flat but operating profit to improve. What is the status of power devices by destination as well as optical devices?

A. Orders were significantly higher in Q4 due to bulk orders resulting from our ongoing product lineup reorganization. Orders for power modules used in railway & power transmission, industrial, and automotive applications were strong. Orders for power modules used in consumer applications were weak, and demand from customers in China and other countries remains weak, as well as demand in the air conditioner market. Demand for optical devices for heavily weighted telecommunications infrastructure has decreased. On the other hand, after a temporary decrease in demand for data centers, AI-related and other investments are picking up. Our products are highly regarded for their high efficiency and low heat generation, and we are beginning to receive inquiries for use in short-distance applications. (Masuda)

Q. You are conservative in your approach to exchange rates, but if the current exchange rate continues, is there a possibility of an upward swing in the FY25 forecast?

A. Although the yen is weakening considerably, we believe that our assumption is normal on an annual basis. If the current market continues, we think there will be a boost according to the level of sensitivity, but when the yen weakened significantly in the past, there were various unforeseen effects. Although we expect the sensitivity to be affected by transactions in foreign currencies, items procured in yen may be affected if the supplier trades in dollars. (Masuda)

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