

# President's Message



**“We accelerate ‘Trade-On (mutual benefits)’ activities that grow the Mitsubishi Electric Group’s business while solving social and environmental issues through innovation based on ‘Circular Digital-Engineering’ in order to realize sustainability.”**

  
Kei Uruma  
Representative Executive Officer,  
President & CEO

## **Fiscal 2024 Performance and Business Management Status**

In fiscal 2024, in addition to the further heightening of geopolitical risk including the prolonged conflict in Ukraine and the tensions between the United States and China, the rapid proliferation of generative AI had a major social impact. The challenging business environment for the Mitsubishi Electric Group also persisted, with the continuation of monetary tightening in various countries around the world and the real estate recession in China. Despite the challenges, however, the various reforms we have implemented to date made steady progress, and we recorded record high revenue and operating profit.

Meanwhile, the current business environment for the factory automation systems business and the air conditioning systems & home products business has deteriorated more than expected in fiscal 2022 when we drew up the Medium-term Management Plan. Although we expect an improvement in market conditions starting in the second half of fiscal 2025, we do not anticipate a recovery to the initially expected level in the short term.

In view of this environment, among the financial targets for fiscal 2026, we have revised the target for the operating profit margin to 8% or more, the target for ROE to 9%, and the target for cash generation\*<sup>1</sup> to 3.3 trillion yen over five years.\*<sup>2</sup> We will maintain our initial plan for capital allocation of 3.4 trillion yen, including shareholder returns. Additionally, in terms of shareholder returns, we have established a dividend policy that sets adjusted DOE\*<sup>3</sup> of 3% as the guideline. Combining this with flexible purchases of treasury stock, we will work to provide long-term stable returns that meet the expectations of investors and shareholders.

By implementing each of our individual measures while taking account of changes in the environment, we will reap the benefits of our investments and strengthen profitability, aiming to achieve an operating profit margin of 8% or more, and beyond that 10% at the earliest possible opportunity, thereby enhancing shareholder returns by delivering sustainable business and profit growth.

\*1 After adjustments, such as adding R&D expenses to operating cash flow \*2 Cumulative total for fiscal 2022 through fiscal 2026

\*3 Adjusted dividend on equity ratio: Dividend paid ÷ The stockholders' equity (excluding accumulated other comprehensive income (loss))

## Shift to Balance Sheet Management Utilizing ROIC and Business Area (BA) Management

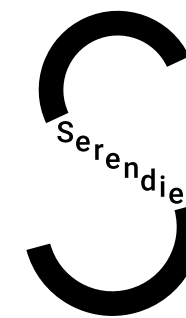
We launched balance sheet management utilizing ROIC\*<sup>4</sup> in a shift to business management that is more focused on asset efficiency. To ensure that employees work with an awareness of the connection between ROIC and their own department, we are further extending ROIC to each business group and setting KPIs\*<sup>5</sup> to promote penetration within the Group. Moreover, the business area (BA) management structure is key in implementing balance sheet management. Each of the BA owners will focus on asset efficiency from the perspective of investors and promote a business portfolio strategy that builds an asset-light business structure and concentrates investment of resources in areas with true value added. In particular, we will strengthen our competitiveness in key growth businesses by strengthening our production systems, collaborating with other companies to make up for areas where we are lacking, and speedily executing aggressive investment, including M&A. We will also reorganize functions of associated companies to strengthen functions and slim down the operation structure of the Mitsubishi Electric Group as a whole. Through these initiatives, we will accelerate the transformation into a resilient earnings structure that can withstand rapid changes in the market.

\*4 Return on Invested Capital \*5 Key Performance Indicator

## Further Accelerating the Achievement of Our Ideal Vision Using Serendie™ Digital Platform

The Mitsubishi Electric Group has set the goal of becoming a "Circular Digital-Engineering Company" as its ideal. "Circular Digital-Engineering" is an approach that creates a cycle in which data obtained from customers in digital space is consolidated and analyzed and the wisdom of the Mitsubishi Electric Group is combined to further enhance components and systems and create new solutions, thereby returning value to customers. We will continuously create value and contribute to the solution of various social issues by ensuring the rapid circulation of this cycle.

I believe data is the most important element of Circular Digital-Engineering. In the past, the Mitsubishi Electric Group used individual platforms optimized for each business, including transportation, energy, factory automation, buildings, air conditioning, to leverage data. However, the previous system lacked adequate coordination between businesses, and this was an issue. To break down this barrier between businesses, we built Serendie as a new digital platform to facilitate unprecedented interactions between devices, systems and services in various fields, and the data and knowledge aggregated from these interactions. The name "Serendie" is a portmanteau of serendipity and digital engineering. As a digital platform, it is organized around a data analysis platform and a Web API integration system. We will leverage this platform to further accelerate the Mitsubishi Electric Group's transformation into a Circular Digital-Engineering Company by creating solutions that cut across business fields. We will also aim to achieve revenue of 1.1 trillion yen and an operating profit margin of 23% by fiscal 2031 in Serendie-related businesses consisting of solutions utilizing data and components collecting data.



Serendie logo

One example of these businesses is Energy & Facility (E&F) solutions, which uses digital technology to accumulate and analyze data obtained from customers to comprehensively solve their issues related to energy and facilities. In addition to this, as part of co-creation with customers, the Mitsubishi Electric Group has also started to provide integrated solutions, including rolling stock maintenance, train operation and power optimization, by analyzing vast amounts of data from railway rolling stock and other sources, many of which have components supplied by the Mitsubishi Electric Group. We will continue to enhance business value through synergies between the Mitsubishi Electric Group's superior components, and solutions utilizing data.

We have identified strengthening of DX human capital skilled in the utilization of data as a pressing issue for promoting Serendie-related businesses. DX human capital at the Mitsubishi Electric Group currently stands at approximately 6,500 workers, which we plan to increase to 20,000 by 2030. We are securing human capital through hiring and M&A, but we are putting most effort into reskilling our employees. Knowledge of our business is essential for providing the value that is unique to the Mitsubishi Electric Group, which has superior components. We have great expectations for the active contributions of team members who are well-versed in our existing business.

### **“Trade-On (Mutual Benefits)” to Solve Social Issues and Grow Our Business**

At the same time as we grow our business, the Mitsubishi Electric Group will also consider what we can do to accelerate fundamental solutions for social issues from a more global perspective.

According to the World Meteorological Organization (WMO), 2023 experienced the world's highest average temperature on record.\*6 In addition, heatwaves, droughts, wildfires, floods, and other events caused significant damage in various parts of the world. Climate change and other social issues are becoming increasing serious year after year. They have a broad impact on people's lives, including soaring food prices caused by poor agricultural harvests.

With the realization of sustainability at the center of business management, the Mitsubishi Electric Group is working to solve social issues including carbon neutrality through its business activities. The relationship between solving social issues and growing business often tends to be regarded as a trade-off. However, I hope to accelerate “Trade-on (mutual benefits)” initiatives that combine solving social issues with growing our business. The key to achieving this lies in innovation based on Circular Digital-Engineering. We believe that the provision of new solutions utilizing diverse data from Serendie will help to solve a variety of social issues while also increasing profitability.

Furthermore, to strongly push ahead with more fundamental sustainability initiatives throughout the Group, we newly established the Sustainability Innovation Group in April 2024. This organization is promoting the GIST Project,\*7 a company-wide initiative driving new business creation from a global and sustainability-based perspective. This group, which consists of approximately 50 people, mainly mid-level employees in their late 30s, has set a key policy for the Mitsubishi Electric Group to become a leader in the nature-positive\*8 area and is developing ideas for business creation by backcasting from the future. The senior management team, including myself and the BA owners, are also actively involved and providing support for the project. In addition to this, to strengthen the management foundation that supports sustainable growth, we will pursue initiatives to reduce greenhouse gas emissions by leveraging the Mitsubishi Electric Group's technology, rather than relying solely on offsetting through the use of non-fossil certificates and carbon credits.

\*6 “2023 shatters climate records, with major impacts” World Meteorological Organization (WMO)

\*7 Global Initiative for Sustainable Technology \*8 Halting loss of natural capital and restoring nature



## Creating an Organization Based on Self-Initiative as Our Three Key Reforms Enter Third Year

It has been three years since improper quality control practices came to light in June 2021. It is also the third year since the three key reforms (quality assurance, organizational culture, and governance) launched in response to these incidents entered the full-scale implementation phase. In fiscal 2025, we are accelerating our efforts to embed and promote the key measures we have implemented to date and to create an organization based on self-initiative. Team Sousei (creation), a company-wide reform project with the leading role in reform of organizational culture launched in October 2021, marks the end of its project in fiscal 2025, which is a year for overall finalization of the activities. However, this does not mean that reform of organizational culture is finished. On the contrary, I believe we must make the process of change into the normal state of affairs by continuing the activities in the future.

As part of the reform of organizational culture, the senior management team has visited individual Group locations to hear the frank opinions of front-line employees directly and actively held town hall meetings to foster dialogue. I myself have held more than 130 town hall meetings so far, and I continue to engage in dialogue with as many employees as possible. At present, we are discussing themes such as guiding employees and solving issues in a format focused on the general managers of departments and senior managers of sections to promote changes in the mindset of employees in managerial positions in particular. Considering the general trend that changes in 20% of people spread to 60% and eventually to the remaining 20%, I feel that we have now exceeded the first 20%, with about 30% of employees really stepping up and thinking for themselves, using self-initiative to drive change in their own organization, without relying on the power of Team Sousei. What will be important for these activities going forward is that the entire senior management team, including myself, continues to provide support so that our employees, who are taking the initiative and working hard to reform the culture with a strong desire to preserve the positives and change where change is needed, maintain their enthusiasm. We will continue to ensure that our commitment to revival does not fade and strive to always act with integrity and honesty together with our colleagues in the Mitsubishi Electric Group.

## Our Purpose Project to Revitalize Our Organization Through the Aspiration of Each Employee

In 2023, the Mitsubishi Electric Group launched the Purpose Project. The goal of the activities is for each employee to think about his or her own purpose, or aspiration, and to find connections and overlaps with the Company's Purpose, or aspiration. Our Purpose, which states that "We, the Mitsubishi Electric Group, will contribute to the realization of a vibrant and sustainable society through continuous technological innovation and ceaseless creativity," was revised to mark the 100th anniversary of the founding of the Mitsubishi Electric Group. At the time when we made the revision, I was very determined to start with the word "we." This was because I wanted each employee to feel a sense of ownership of the Mitsubishi Electric Group's Purpose. In fact, when I was younger, I did not have anything you might call an aspiration. However, I gained great insight from a book entitled *Shushin Kyojuroku* ("Ethics Teaching Record") by Shinzo Mori. In the book, Mori discusses the importance of establishing an "aspiration," based on the idea that we only live once. Establishing an aspiration provides a guiding principle so that you can live a life that is true to yourself. Since then, I have approached my work with a strong sense of aspiration, and I would like the people I work with to do the same.

My purpose is to make the Mitsubishi Electric Group into a vibrant company that helps to build a warm, compassionate society, and to live honestly with "passion, enthusiasm, and goal-focused persistence" to achieve this goal. This project has reminded me that it is important to express our thoughts in words and share them with our colleagues. The driving force behind the company is none other than each individual employee. An organization will naturally become vibrant and strong when employees with aspirations come together as a team and approach their work with enjoyment. For the Mitsubishi Electric Group to continue being a vibrant company going forward, I myself will continue to move forward with passion, enthusiasm, and goal-focused persistence. The Mitsubishi Electric Group will also do its utmost to ensure that its stakeholders share the Group's aspirations and provide even greater support.