Mitsubishi Electric Corporate Strategy

Sustainability Management

Positioning the realization of sustainability as the cornerstone of our management, we have clarified five challenge areas to focus on to promote solutions to social challenges through our businesses.

*Five challenge areas*

- **Carbon neutral**: Achieve a decarbonized society to curb climate change by reducing CO2 emissions from the company and society.
- **Circular economy**: Achieve a society in which resources are effectively used and sustainably circulated.
- **Safety / Security**: Achieve a resilient society that can cope with various environmental changes and risks.
- **Inclusion**: Achieve a society in which all people are respected and everyone can lead free, fair and vibrant lives.
- **Well-being**: Achieve a healthy and comfortable life for each individual, both mentally and physically.

*Materiality*

- Realize a sustainable global environment
- Realize a safe, secure, and comfortable society
- Strengthen corporate governance and compliance on a sustainable basis
- Create a sustainability-oriented corporate culture
- Respect for all people

*New Management Structure to Achieve Sustainability Management*

We have established four Business Areas (BA) that will enhance sustainability management. BA owners envision their ideal state with a bird’s eye view of their businesses and accelerate solving social challenges through our businesses.

*Integrated Solutions*

Support the entire lifecycle in providing a system from consulting to maintenance and operation. We strengthen components as the base of our business, expand systems utilizing advanced digital technologies, and provide Integrated Solutions with these at the core, to be the driving force behind our continuous growth for complex challenges.

*Circular Digital-Engineering Company to solve social challenges*

We will transform into a “Circular Digital-Engineering” company that provides evolved Integrated Solutions through co-creation and by integrating knowledge within and outside the Group, thereby helping to solve various social challenges.

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Initiatives for Carbon-Neutral
We will strengthen our initiatives from dual approaches: “Responsibility” to reduce greenhouse gas emissions in the value chain of our Group and “Contribution” aimed at realizing carbon-neutral in the entire society through our businesses.

Responsibility
We will strengthen our initiatives to achieve net zero greenhouse gas emissions in the entire value chain in FY2031 and to reduce greenhouse gas emissions from factories and offices by 50% or more in FY2031.

Contribution
We will accelerate R&D in three innovation areas: Green by Electronics, Green by Digital, and Green by Circular to create and expand businesses that make society as a whole carbon neutral.

Initiatives to reduce greenhouse gas at factories and offices.
- Continuously invest 0.15% of revenue in carbon neutral efforts.
- Use renewable energy to 85 sites in Japan in FY2023
- Promote expansion of internal renewable energy procurement using multi-region EMS\(^*\).

Main R&D Themes
- CO2 / Carbon recycling
- CCS (Carbon Capture and Storage)
- ITER (International Thermonuclear Experiment Reactor)
- EPR (European Pressurized Reactor)
- CCS / Carbon recycling
- CCS (Carbon Capture and Storage)
- Power-to-X
- Fuel cell

Financial Targets
Our Group will aim to achieve ¥5 trillion in revenue and 10% in operating profit margin for FY2026. In addition, we will aim to achieve 10% in ROE and ¥3.4 trillion in cash generation during the five years of the medium-term management plan.

Business Portfolio Strategy
For sustainable growth, in an attempt to improve profitability through strengthened business portfolio strategy, we will strategically invest management resources in five businesses: FA Control Systems, Air Conditioning & Refrigeration Systems, Building Systems, AESA (Advanced Electron System), and Power Semiconductor Devices that we define as the key growth businesses, and thereby shift our resources to businesses with high profitability and growth potential. For potential businesses and new businesses, we will expand data linkage/utilization type solutions businesses and reform business models of existing businesses and create next-generation businesses.

Profitability
- Revenue ¥5 trillion
- Operating Profit Margin 10%
- ROE 10%
- Cash Generation\(^*\) ¥3.4 trillion / 5 years

*Cash Generation: Adjusted operating cash flow (CF)

Business growth potential
- High

Resilient Businesses
- Have stable demand and contribute to our resilient management regardless of market fluctuation
- Expand profitability through efficient investment
- Revenue of ¥1 trillion
- Operating profit margin of 9% (FY2026: Total of Resilient Businesses)

Key Growth Businesses
- Growth drivers that have the potential to become global leaders in growth markets, and lead to innovation for addressing social challenges
- Scale up and increase profitability through concentrated investment in growth businesses
- Revenue of ¥2 trillion / growth rate of 8% (CAGR for FY2021~FY2026)
- Operating profit margin of 13% (FY2026: Total of Key Growth Businesses)

Potential Businesses/New Businesses
- Expand data linkage/utilization type solutions businesses
- Reform business models of existing businesses and create next-generation businesses

Value Recapturing Businesses
- Use existing resources to gain new added value that meets market demands

Businesses with issues
- Consider selling/withdrawing from less profitable businesses falling below a set threshold

Progress of Medium-term Management Plan Towards FY2026
- FY2026 Financial Targets
  - Revenue ¥5 trillion
  - Operating Profit Margin 10%
  - ROE 10%
  - Cash Generation\(^*\) ¥3.4 trillion / 5 years

*Cash Generation: Adjusted operating cash flow (CF)
Key Growth Businesses, Potential/New Businesses

In key growth businesses, we are steadily expanding the scale through growth investment by increasing production capacity, building a new system for business operation, launching new products, etc. As for potential businesses and new businesses, we are accelerating the creation of new businesses through open innovation.

In resilient businesses, we are improving profitability and expanding businesses through merger and acquisition, etc. Some value recapturing businesses have shifted to resilient businesses due to improved profitability. Businesses with issues are shifting resources by selling, withdrawal, and collaboration.

Resilient Businesses, Value Recapturing Businesses, Businesses with issues

In resilient businesses, we are improving profitability and expanding businesses through merger and acquisition, etc. Some value recapturing businesses have shifted to resilient businesses due to improved profitability. Businesses with issues are shifting resources by selling, withdrawal, and collaboration.

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Priority Allocation of Resource Investment

We invest resources in the amount of ¥2.8 trillion, up ¥0.8 trillion from the previous medium-term management plan, centered on Key Growth Businesses to attain the FY2026 financial targets (revenue of ¥5 trillion, OPM of 10%). We have started considering the use of the ¥0.2 trillion for each business field, out of the ¥3.5 trillion strategic investment.

Resource Investment

Revenue / Operating Profit

FY2026 Financial Targets

Growth investment, etc. ¥3.4tn

Shareholder returns, etc. ¥2.7tn

Capital Allocation

Cash Generation

Value Recapturing Businesses, etc.

Capital Allocation Policy

For capital allocation, giving top priority to investment in growth, we will further enhance shareholder returns through profit growth. In terms of cash generation, the source of capital, we will aim to generate ¥1.4 trillion over a five-year period, with a focus on Key Growth Businesses. We will return profits to shareholders (dividends + buybacks) with a target of ¥0.6 trillion (Previous Medium-term Management Plan: ¥0.4 trillion). In addition, we will further improve capital efficiency by implementing capital measures.