Infrastructure Business Area

May 2023

Mitsubishi Electric Corporation
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Executive Summary
Executive Summary

**Solve social challenges**
- Balance carbon neutrality and stable power supply to contribute to a sustainable society
- Contribute to stable operation and development of safe & secure social infrastructures with digital technologies

**Management target**
- Revenue of ¥1,200 billion or more, operating profit margin of 7.0% or more for FY 2026
  (Results for FY 2023: Revenue ¥973.1 billion, operating profit margin 2.8%)

**Growth strategies**
- Concentrated Investment into Decarbonization Components
- Integrated Solutions: Develop Energy & Facility Solutions business
- Focused Allocation of Resources to Defense & Space Business

**Strengths**
- Strong engineering capabilities accumulated in large-scale projects
- World's top-level components and cutting-edge technologies in Defense & Space Business

**Enhance business foundation**
- Rebuild business and production foundation that generates cash
- Merge engineering capabilities and digital technology to support solution business
- Enhance capability to address business risk

Worldwide customer base & supply record
2 Business Structure
Business Structure

Business/product groups that support wide-ranging social infrastructures in and out of Japan

- **Public system**
  - Delivery record:
    - 5,300 water treatment facilities

- **Transportation system**
  - Electrical equipment for 93,600 railcars

- **Power system**
  - Power generator: 2,800 units
  - HV Switchgear: 24,000 units
  - Power transformer: 9,000 units

- **Defense system**
  - Radar, electronic warfare system, information and communication command system, etc.
  - Ranked 3rd in the contract order amount from ATLA* (FY 2022)

- **Space system**
  - Track record of manufacturing more than 70 satellites
  - Equipment mounted on more than 650 satellites across the globe

*ATLA*: Acquisition, Technology & Logistics Agency
Market Environment and Directions of Growth Strategy
Balancing carbon neutrality with economy, and national/energy security are growth opportunities. (Focus on improving profitability of core business)

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<thead>
<tr>
<th>Business field</th>
<th>Market environment (market trend)</th>
<th>Growth strategies</th>
</tr>
</thead>
</table>
| Core Business  | • Demand for National Resilience and upgrading aged infrastructures  
• Energy security  
• Demand for grid stabilization and distributed energy resource control from expanding renewable energy  
• Greenhouse gas control (SF6-free), DC transmission demand  
• Solve the issue of labor shortage to keep infrastructure operation  
• Achieve carbon neutrality with economic rationality | Focus on cash-generating businesses & components  
(Restructure less profitable/non-core businesses)  
Concentrated Investment into Decarbonization Components  
Integrated Solutions: Develop Energy & Facility Solutions business  
Focused Allocation of Resources to Defense & Space Business  
(Establish development/production structures) |
| Decarbonization Business | | |
| Solution Business for energy /infrastructures | | |
| Defense/Space | • Defense budget increase based on government policy "Defense Build-up Plan"  
• Growing security demand in the space domain  
• Japan participates in international space exploration (Lunar Exploration Program) | |
Growth Strategy 1: Concentrated Investment into Decarbonization Components

Development of components corresponding to renewable energy expansion and strategic alliance

1. **Power Transmission Business**
   - Promote joint development with Siemens in the field of SF6-free switchgears (VCB)
   - Acquisition of Scibreak of Sweden for DC Circuit Breakers (DCCB)

2. **Power Generation Business**
   - Promote SMR Business through cooperation with Holtec in U.S.

3. **Digital Energy Business**
   - Acquisition of Smarter Grid Solutions in U.K. for distributed energy resource control
Growth Strategy 2: Energy & Facility Solutions Business

Circular Digital-Engineering business initiatives

1. Business Development Based on Strengths of IBA*
   - MELCO’s strong customer base & supply record
   - Strong engineering capabilities of IBA
   - Superior components & cutting-edge technologies in IBA
   - Synergy

2. Energy & Facility Solutions
   - Energy solutions that achieve carbon neutrality with economic rationality
   - Facility solutions that achieve safety and security
   - Digital twin that creates new customer value

IBA*: Infrastructure BA
Growth Strategy 3: Focused Allocation of Resources to Defense & Space Business

Improvement of development/production structures by bold resource shifting and strategic alliance

1. **Address and contribute to the government policy**
   - Establish development/production structures contributing to government’s “Defense Build-up Plan” and “Basic Plan for Space Policy”
     - (1) Increase approx. 1,000 persons (including resource shifting)
     - (2) Plan capital investment in Kamakura Works and Electronics and Communication Systems Center (approx. ¥70 billion)

2. **Strategic alliance**
   - Joint development of mission avionics system for next-generation fighter electronics (cooperation among 4 companies from Japan, U.K. and Italy)
   - Cooperation with Astroscale in Japan for joint development/manufacturing of satellite bus for security use
The Big Picture for Strengthening Business Foundation
Rebuild business and production foundation that generates cash

1. Rebuild business/production foundation to respond to changes in the market
2. Focus resources on cash-generating businesses
   (Restructure less profitable/non-core businesses)

Merge engineering capabilities and digital technology to support solution business

1. Establish a company-wide engineering organization
2. Structure manufacturing-driven analysis technologies and digital twin based on field knowledge

Enhance capability to address business risk

1. Address risk of declining profitability of large projects
2. Reinforce responsiveness to changes in the market environment
1. **Rebuild business/production foundation to respond to changes in the market**
   - Establish power generator JV company with Mitsubishi Heavy Industries, Ltd.
   - Optimize production systems for transportation business and transmission business (revise yard plan, streamline staff functions, etc.)
   - Reduce cross-shareholdings

2. **Focus resources on cash-generating businesses (Restructure less profitable/non-core businesses)**
   - Promote ambidextrous management in the water environment business (service business expansion)
   - Expand domestic digital energy business (smart meter system, etc.)
   - Accelerate restructuring of businesses with issues
1. Establish a company-wide engineering organization
   - Establish E&F Solution Dept. to provide Energy and Facility solutions to all our customers
   - Cooperation with DX Innovation Center

2. Structure manufacturing-driven analysis technologies and digital twin based on field knowledge
   - Reinforce analysis technology based on manufacturing (abnormality signals detection, deterioration diagnosis, condition estimation, etc.)
   - Algorithmize field knowledge obtained from construction, maintenance, and operation
   - Establish high-precision digital twin (utilize modeling and simulation technologies)
1. **Address risk of declining profitability of large projects**
   - Improve current project profitability
     (measures have already been deployed)
   - Frontloading (delivery, quality and cost) upon signing contract

2. **Reinforce responsiveness to changes in the market environment**
   - Responding to innovation risk (disruptors)
     (utilize open innovation, CVC*, etc.)
   - Strengthen core component solution business
     (asset-light orientation)

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CVC*: Corporate Venture Capital
Portfolio Strategy
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The Ideal Form
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<tr>
<th>Social challenges</th>
<th>Energy</th>
<th>Carbon neutrality</th>
<th>Safety/Security</th>
<th>Facility</th>
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<tbody>
<tr>
<td>Allocate resources intensively to growing businesses</td>
<td>Develop decarbonization components/products Enhance Defense &amp; Space business</td>
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<tr>
<td>Create Integrated Solutions that generate cross-business synergies</td>
<td>Promote E&amp;F Solution Business</td>
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### E&F Solution Business

- **Energy**: Carbon neutrality, energy conservation and electrification
- **Facility**: Abnormal signs detection, operation and maintenance of entire facility

### BA’s Strength

- Global customer/installation base
- Synergy
- Engineering capability
- Superior components
- Cutting-edge technologies
- Digital twin (DX)

### New value offering to customer

- O&M* service
- Data provision & analysis
- Consulting service

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O&M*: Operation & Maintenance

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