

Summary of the Q&A at the Consolidated Financial Results Briefing for the Second Quarter of Fiscal 2024 (The Press)

Date and time:	Tuesday, October 31, 2023 from 4:00 p.m. to 5:15 p.m.
Venue:	Head office of Mitsubishi Electric Corporation (Online briefing)
Respondents:	Kuniaki Masuda, Executive Officer, CFO Kenichiro Fujimoto, Executive Officer overseeing Accounting and Finance, Senior General Manager for Corporate Accounting Div.

- Q. What caused the automotive equipment business to turn into profit during Q2 (three-month period) of FY24? What are the details of the background, process, and so on of the transfer of business to a new subsidiary, which is an update on the disclosure your company announced today?
- A. The business turned into profit in large part due to price hike and exchange rate fluctuation. Although we would like to have reflected our price hike efforts in the financial results a little more, we were unable to conclude negotiations with some customers by the end of Q2, so those remain to be reflected. We are continuing negotiations and expect these efforts to bear more fruit from Q3 onward.
- We are carrying out the spin-off of the business with the aim of managing it with a sense of unity. Currently, in addition to improving cost efficiency and prices as well as preparing to establish a new company, we have been consulting with candidate companies for collaboration in businesses such as xEV in which the partner strategy will be implemented and making other efforts. For those businesses and models from which we have decided to withdraw, we are negotiating with customers regarding matters such as support from alternate suppliers so that we will be able to close such operations as soon as possible.
- Q. In relation to FY24 forecast, your company stated that demand will decrease in the factory automation systems business and the air conditioning systems & home products business. Specifically, to what extent do you expect demand to decrease and in which regions?
- A. In the factory automation systems business, the overall situation is deteriorating despite some robust areas, such as lithium-ion batteries, electric vehicles (EVs), construction, and food; orders dropped significantly in Q1. In terms of regions, business is sluggish basically everywhere. Orders in Q2 were 99% that of Q1, which is close to flat, while orders from China are increasing slightly. We see that the number of orders has stopped declining for the time being, though attention to orders continues to be needed. Orders for H2 are forecast to remain almost flat, and the market is expected to recover in FY25 or thereafter, which is later than anticipated.
- The air conditioning systems business saw a decrease in demand in some areas from Q2 despite robust demand for the business. Channel inventories are increasing in North America, and sales are also decreasing compared to Q1. In Europe, the business grew year-on-year up to Q2, but the growth is slowing down somewhat due partly to reviews of subsidies in some countries.
- While foreign exchange rates have put strong upward pressure on both businesses, FY24 forecast for the air conditioning systems & home products business remained unchanged from the previous forecast, and there were decreases in revenue and profit from the previous forecast for the factory automation systems business.

- Q. Today, the Bank of Japan decided to adopt a more flexible policy on long-term interest rates. What do you think of that revision as a company, including the impact on exchange rates?
- A. We think there will be a certain impact on exchange rates, but we will carefully refine the profitability of our businesses.
- Q. I would like to hear about the progress of the reform of the automotive equipment business and your policy on the capital structure of the businesses for which you are implementing a partner strategy.
- A. Although it is difficult to explain the details, for the most part, the reform is progressing according to our plan. We have already mentioned that we were unable to fully reflect our price hike efforts during the first half of the year in the second quarter results. What we mean is that our negotiation efforts cannot be reflected in the prices until we have concluded the negotiations in their entirety. We expect we can do so during the third quarter or thereafter. As for the capital structure, in an attempt to reach a good conclusion, we have been considering a partner strategy for the electrification and advanced driver assistance systems (ADAS) business without limiting the possibilities.
- Q. Regarding the factory automation systems business, what are your expectations for the timing of recovery by each industry?
- A. While minor signs of recovery in demand can be seen in some smartphone-related products in China, at this point, there is no telling how the situation will develop. It is difficult to predict the recovery timing. For lithium-ion batteries and others, which we already stated are robust areas, we expect another major increase in demand from FY25 to FY26. Close attention is needed for EV-related products. Regarding semiconductor-related products, demand for some power semiconductor and generative AI products is increasing, but memory is sluggish. We expect the timing of recovery will be postponed until FY25 or later.
- Q. Regarding the spin-off of the automotive equipment business, do you plan to reduce the number of personnel? Also, can I correctly understand that you will be withdrawing from the car navigation business?
- A. We are considering relocating the personnel engaged in the businesses from which we are withdrawing to growth businesses such as the factory automation systems business and other businesses that need to be strengthened. In the car navigation business, many members have been involved in embedded software development, and we expect that we can fully utilize their knowledge in the factory automation systems business. We would like to utilize the know-how and human resources we have developed in the automotive equipment business in other businesses within our Group, and we have no plan to take them outside the company. Your understanding that we will withdraw from the car navigation business is correct.
- Q. What efforts have you made toward increasing pay so far? Are those efforts expected to appear in the financial results for this term?
- A. We fully accepted employees' pay demands in the negotiations during the spring of this year, and we are totally committed to improving wages. We will continue to work on this matter in an attempt to strengthen our competitiveness in the recruiting market and to encourage our employees to demonstrate their skills.

Q. You stated that you were choosing partner companies for the electrification business. Do you have a plan to implement the partner strategy in other businesses? If you decide on a partner, will you further exclude from a split company?

A. We are promoting a partner strategy for ADAS-related businesses as well. For other businesses, though this is not to say that there is no possibility at all, we are having concrete discussions regarding two businesses: electrification and ADAS. We believe it is highly likely that when we decided on a partnership with a company, we will exclude the relevant part from a split company.

Q. When do you plan to decide on partners for the electrification business and the ADAS business?

A. At this point in time, it is difficult to state a definite time. We will come to a conclusion as soon as possible.

Note: This document has been translated from Japanese original for reference purpose only. In the event of any discrepancy between this document and the Japanese original, the original shall prevail.