

## Q&A Session on Financial Results for the Fiscal Year Ended March 31, 2022

(Q) How is the impact of the recent rise in interest rates overseas being factored into the financial forecast for FYE3/2023? Also, with the depreciation of the yen and rising interest rates, I think that M&A activities targeting overseas companies are likely to be relatively expensive. Will this affect your M&A policy?

(A) In the U.S., the upward trend of interest rates is remarkable, and we are aware that interest rates are beginning to rise in the UK and elsewhere as well. However, we are matching the duration of assets and liabilities through ALM, and I believe that such change of interest rates will have only a negligible impact on performance.

Inflation which is one of the underlying factors of rising interest rates may have an impact on our business performance in the event that, accompanied with a worsening of the situation in Russia and Ukraine, the monetary policies fail to curb the inflation and such failure leads to stagflation, and the inflation influence the financial market. However as it stands, this has not been factored into our financial forecast for FYE3/2023.

In addition, our M&A strategy is not to seek the growth in scale, but rather to engage in projects that contribute to building new business, acquiring new functions that we don't have, and improving profitability. Assuming we can crack profitability first and foremost, then I don't think depreciation of the yen and rises in interest rates will have a significant impact on our M&A strategy.

(Q) In the financial forecast for FYE3/2023, you anticipate a decrease of 16.0 billion yen YOY in credit costs. Even taking into account the large allowance for doubtful accounts in infrastructure-related businesses in FYE3/2022, I think we expect to see a decrease of at least 10.0 billion yen owing to other factors. What are the main causes of this decrease?

(A) In FYE3/2022, we posted large credit costs in the following three segments: Customer Business (Domestic and China), Aviation and Others (overseas infrastructure).

At the beginning of FYE3/2022, we had expected a decrease in credit costs in the Aviation, but we continuously posted credit costs in this segment, mainly due to the impact of the COVID-19 in Southeast Asia.

Credit costs in the Aviation are likely to decrease in FYE3/2023 thanks to factors such as recovery of passenger demand, etc.

Moreover, we think that the large credit costs in Customer Business and Others were transient things

affected by the COVID-19, and once these be absent, we expect that the credit costs will decrease in FYE3/2023.

(Q) What are the growth drivers that will help to achieve 1.5% ROA, which is given as the expected target for the final fiscal year of the new Medium-term Management Plan? Please could you tell us which segments are driving the growth of the company?

(A) Building on our five focused business domains,<sup>1</sup> we reorganized our business departments in April 2022, and the new Medium-term Management Plan is being formulated with this new organization. We expect improved ROA in each segment based on their strategies. Our plans for this are outlined on pages 27 and 28 of the Financial Results material. The things that we must do, for increasing efficiency or expanding returns, are different for each business, so we are considering these within each segment. Based on these, we plan to present the new Medium-term Management Plan by the end of this fiscal year. For that reason, I'd rather not say right now which segments are drivers. Instead, I'd prefer to present this information in more concrete terms in the new Medium-term Management Plan.

(Q) To what extent is the influence of exchange rates accounted for in the financial forecast for FYE3/2023? And will the 6.1 billion yen of expenses related to business integration posted in FYE3/2022 completely cease to exist in FYE3/2023?

(A) The assumed foreign exchange rates used for the financial forecast for FYE3/2023 are \$1 = ¥120, £1 = ¥158, €1 = ¥134. For the euro and the pound, these are close to the current exchange rate, but for the US dollar, this differs from the current exchange rate by close to 10 yen. We don't know what the exchange rates trends will be, but foreign exchange sensitivity for the dollar per 1 yen is currently estimated as approx. 0.2 billion yen.

Regarding expenses related to business integration, we expect to post several billions of yen for expenses related to systems and those related to integration of overseas subsidiaries, etc. in FYE3/2023 as part of the PMI process, but this won't exceed the amount in FYE3/2022.

With regard to the influence of exchange rates, we expect the positive effect of 2.0 billion yen to the net income compared with FYE3/2022, based on simple calculation on the assumed foreign exchange rates as mentioned above.

We also anticipate 2.0 billion yen of expenses related to the business integration in FYE3/2023.

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<sup>1</sup> The five domains are "Social Infrastructure & Life," "Environment & Energy," "Sales Finance," "Mobility" and "Global Assets."

- (Q) 3.0 billion yen was posted for expenses in connection with reconfiguration of portfolio in the railway freight car leasing business in the Logistics for 4Q FYE3/2022. Will the similar expenses continue to be posted in and after FYE3/2023?

Excluding expenses in connection with reconfiguration of portfolio in the railway freight car leasing business, I think the profit level for the Logistics in FYE3/2022 was rather high, but considering factors such as the consolidation of CAI and the condition of the marine container leasing market, to what extent do you think that the Logistics will contribute to profits in FYE3/2023?

- (A) With regard to reconfiguration of the railway freight car leasing portfolio, demand for small covered hoppers to carry frack sand used to mine for shale oil has decreased, so we are switching to railcar type with a higher demand. Three quarters of all of the switching expenses have been spent in FYE3/2022, and we plan to spend the remaining quarter in FYE3/2023. We expect that once the switch is complete, we will see a contribution to profits.

The demand for marine containers overseas is expected to continue at a high level in FYE3/2023, so I have the highest expectation for the Logistics to contribute to achieve our 110.0 billion yen of net income that is currently forecasted.

- (Q) In the financial forecast for FYE3/2023 (on page 22 of the Financial Results material), business growth of 43.0 billion yen is given as one of the factors for the increase in profits. Please could you show us the breakdown by segment?

- (A) The breakdown by segment isn't disclosed in the financial forecast for FYE3/2023 but our highest expectations are in the Logistics, thanks to the acquisition of CAI.

We also expect significant contributions from Customer Solutions, Environment, Energy & Infrastructure, and Real Estate.

We also expect the business environment of the Aviation to start to improve, which would lead to an increase in profits, but we are being still cautious about this. On the other hand, we expect a decrease in profits in the Global Business due to a reactionary fall in the sale of strategic shareholdings posted in FYE3/2022.

- (Q) Under "PMI Progress" on page 31 of the Financial Results material, it says, "completed the replacement of services and systems..." Is there now just one core system following the completion of the system integration?

- (A) "Completed the replacement of services and systems" means that we have moved away from the

Hitachi (Ltd.) services and systems that were used by former Hitachi Capital. It doesn't mean that we now have just one fully integrated system. I don't think we urgently need to move to a newly integrated system. We have already started to consider a new system, but we haven't decided on a specific time for switch.

(Q) Based on the expected target with respect to ROE of approx. 10% for FYE3/2026 and a payout ratio of approx. 40% during the period of the new Medium-term Management Plan, profit growth rate is estimated to be double-digit percentage level, and net income for FYE3/2026 is estimated to exceed 150.0 billion yen. Are there any major discrepancies in such understanding?

(A) I would like to refer you to the specific figures for FYE03/2026 in the new Medium-term Management Plan.

I think we need to realize the transformations outlined on pages 27 and 28 of the Financial Results material, and we will consider measures that lead to the phase-two and phase-three Medium-term Management Plans this fiscal year.

Extending along the current growth lines, linear growth should be possible, but I don't think this will help us to attain our 10-Year Vision. In the phase-one Medium-term Management Plan, we will transform our business model by deepening and enhancing the efficiency of existing businesses, developing new businesses, and so on, and through the phase-two and phase-three Medium-Term Management Plans, we hope to achieve exponential growth.

For this reason, I think the first Medium-term Management Plan is extremely important.

(Q) In segments with business models that involve asset turnover, what is the normally assumed proportion of capital gains that makes up net income?

(A) The proportion of capital gains that makes up net income is different for each segment, and it is also varied according to the market condition and owned assets, so we haven't set a uniform guideline.

Revealing the breakdown of expected income gains and capital gains could end up having a misleading on forecasts in the market, so I would prefer not to disclose the breakdown. I would rather explain the condition of segment profits on a case-by-case basis.

(Note) This translation is prepared and provided for reference only. In the event of any discrepancy between this translated document and the original Japanese document, the original Japanese document shall prevail.

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