Q&A Session on Financial Results for the Second Quarter of Fiscal Year Ending March 31, 2025

(Q) Could you tell me approximately how much credit costs you are expecting for the second half in the Americas in the Global Business segment? I would also like to know approximately how much income gains and asset-related gains you anticipate from the thriving Aviation segment in the second half.

(A) The Americas in the Global Business segment recorded large credit costs in the first half. However, since market conditions are gradually recovering, we expect a gradual decrease in credit costs for the second half.
The Aviation segment's performance has been quite strong, and we expect similar results in the second half.
I would like to explain our forecast for our Group as a whole, including other segments, for the second half. The results for the Environment & Energy segment are planned to recover significantly, as we do not anticipate credit costs and impairment losses, which were recorded in the first half, and sales gains surpassing the plan are expected in the second half, and so on. As I mentioned, we also expect credit costs in the Americas in the Global Business segment to decrease gradually. In addition, there is the possibility that other segments may see factors which boost profits. Therefore, I believe that it is entirely possible for us to achieve the full-year forecast (135 billion yen in net income), as was the case in the previous fiscal year, when we achieved the target despite progress of just 43% in the first half against the full-year forecast.

(Q) What kind of initiatives do you plan to implement going forward in order to achieve an ROA of approximately 1.5% and an ROE of approximately 10% in the next fiscal year, the final year of the 2025 MTMP?

(A) First, we will strive to achieve the full-year targets for this fiscal year. Then, we expect to achieve the net income target for the next fiscal year with the absence of impairment losses and credit costs recorded this fiscal year in the Environment & Energy segment, a decrease in credit costs in the Americas in the Global Business segment, continuing strong business results in the Aviation and Logistics segments, a profit increase in the Customer Solutions segment through the creation of added value, and other factors. We also expect a profit increase from the investment of 200 billion yen in marine containers, which is being made by the Logistics segment in this fiscal year. Through all these factors, we expect to achieve net income of 160 billion yen.

Regarding next fiscal year's targets for ROA and ROE, when we formulated the 2025 MTMP, we assumed exchange rates of 130 yen to the U.S. dollar and 160 yen to the British pound, which were much stronger than the current rates. Profit increases as the yen weakens, but equity capital, which is the denominator of ROE, also increases at a higher rate than profit. Thus, the exchange rates are less favorable for ROE than they were when we formulated the 2025 MTMP. If we calculate with the net income of 160 billion yen and exchange rates of 150 yen to the U.S. dollar and 200 yen to the British pound, the next fiscal year's ROA will be in the 1.3% range, and ROE will be around 9%. However, I think we must continue aiming to achieve our target of an ROE surpassing the cost of equity capital, and we would like to achieve a net income surpassing the current target of 160 billion yen for the next fiscal year. Therefore, at present, we do not intend to change the targets for ROE and ROA set out in the 2025 MTMP.

(Q) Is there any chance that you will change the targets for ROE and ROA?

(A) No. We would like to strive for the current targets during the 2025 MTMP.

(Q) Domestic interest rates are on an upward trend and your funding costs is increasing. In this context, have you been able to appropriately pass on the increased funding costs to lease rents? Also, I would like to know how the discussion regarding lease rents is progressing, anticipating the possibility of further interest rate increases.

(A) At present, the interest rates for foreign currencies and the Japanese yen are trending in opposite directions. The majority, approximately 60%, of our assets are denominated in foreign currencies, and the interest rates for U.S. dollar and British pound have entered a phase of rate cuts. Our margins narrowed somewhat when interest rates surged in Europe and the U.S. a few years ago, but they are currently improving and so our profitability is expected to recover. Meanwhile, interest rates for the Japanese yen started to increase. However, our policy is to align asset and funding durations as much as possible, and this has helped prevent significant impacts from interest rate changes. In addition, interest rates for the Japanese yen are anticipated to rise at a slower pace compared to the U.S. dollar or the British pound. Therefore, I believe we will be able to pass on our funding costs to lease rents through negotiations with our customers over a sufficient period of time.

(Q) What is your understanding of the impact of the confusion at Boeing on your aviation business?

(A) As the strike at Boeing is due to be settled, it has not exerted a major impact on the delivery of aircraft to MHC. We believe that the impact of the Boeing issue on our performance in this year will be minor.

There are two main factors for the strong performance of the Aviation segment. One is the recovery from COVID-19. Passengers have returned across the entire aviation industry. Assuming that the number of passengers pre-COVID-19 was 100, the number in the last year was approximately 99, taken across both international flights and domestic flights, and the number this year is expected to exceed that 100. The other factor is supply chain issues. Mainly due to issues on the manufacturers' side, a sufficient number of aircraft and aircraft engines have not been supplied, thus airline companies have a higher incentive to use leasing.

(Q) Do you expect that the strong performance of the Aviation segment will continue through the second half, or next year?

(A) I expect so. The market also does not anticipate that the aircraft and aircraft engine supply chain issues will be resolved soon. They will be resolved sometime, but it will take time. Therefore, we believe that the current situation will continue for the time being.

(Q) Looking at your recent performance, it appears that losses not initially planned have been offset by gains on asset sales. In the medium to long run, not just the current year, how should we understand the continuation of gains on asset sales?

(A) Our strategy is to increase profitability without excessively expanding the balance sheet, and one of our initiatives is to improve the asset turnover ratio. This asset turnover (O&D) business strategy has been established in the Aviation, Real Estate, Environment & Energy, and other segments. In addition, we have steadily executed new transactions as a source of asset sales, sufficiently ensuring the continuation of gains on sales.

You may certainly feel that we are offsetting our unplanned losses with gains on asset sales. However, it is also true that the volume of income gains has also increased across the entire portfolio. For example, the Aviation segment ordered a large number of engines during

COVID-19 when market conditions were difficult. This investment in engines is generating a substantial profit under the current market conditions, with the insufficient supply. Engine Lease Finance, which is engaged in engine leasing in the Aviation segment, has recently been strong and has become a source of profit increase in the Aviation segment in this year. Furthermore, we are making a large investment amounting to 200 billion yen this year in the marine container leasing business. As CAI's strength is making investments flexibly while watching market conditions, leasing contracts for almost the entire 200 billion yen worth of containers ordered are going to be concluded by the end of this year. Therefore, these leasing transactions will begin to contribute to profits from the second half of this fiscal year, and the amount of contribution will be approximately several billion yen in the next fiscal year. Similarly, not only mere gains on asset sales, but increased income gain obtained through timely investments has also become a source of profit, offsetting the unplanned losses.

(Q) Please tell us what kind of opportunities and risks management expects in association with the change of government in the U.S.

(A) I believe that it will have impacts on many fronts, such as the taxation system, decarbonization policy, industrial policy, and policy regarding China.

First of all, in the case that the new government continues personal and corporate income tax cuts, or further reduces taxes, there will be a favorable impact on the macro environment. While our business in North America struggles in truck finance, as we are also operating other businesses that support capital investment, I expect that our business conditions will improve if the macro environment in North America improves.

In addition, if tariffs are increased in the future, we will see last-minute demand before the increase in the short term. An increase in demand for transportation within the U.S. or marine container transportation might positively affect our business performance. On the other hand, in the case that the logistics volume shrinks across the world due to the increase in tariffs, there will be unfavorable effects in the long term.

In terms of the financial market, it seems that President-elect Trump himself prefers a strong yen and a weak U.S. dollar. We assume the yen versus the U.S. dollar to be 140 yen for this year and 130 yen for the next year, with a sufficient buffer to prepare for cases where the yen appreciates further from the current rate.

In any case, as Trump's election was so recent, we will closely watch the situation by strengthening our intelligence functions.

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