

Business Segment Meeting - Aviation -

July 5, 2024

Mitsubishi HC Capital, Inc.



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Definitions for Acronyms Used in This Material

- MHC : Mitsubishi HC Capital
- JSA : Jackson Square Aviation (Aircraft financing and leasing company)
- elfc : Engine Lease Finance Corporation (Aircraft engine financing and leasing company)
- INAV : INAV (Aircraft engine parts sales company)
- ABD : Aviation Business Department
- MHCAS : MHC Aviation Services
- JOL/JOLCO : Japanese Operating Lease with Call Option

01 Introduction to the Aviation Business Division

02 Business Overview

03 Business Strategies

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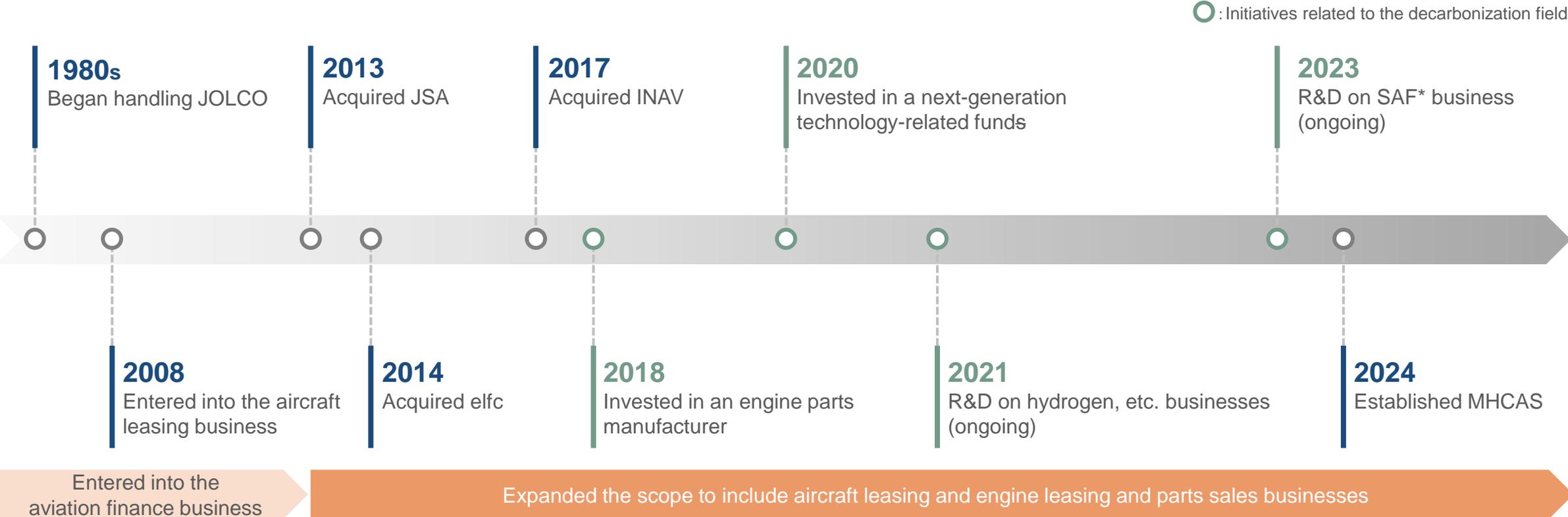
03 Business Strategies

Introduction to the Aviation Business Division



Overview

- 1980s Entered into the aircraft finance industry. Since then, we have provided services and accumulated business expertise for over 40 years
- 2013- Expanded the scope to include aircraft leasing and aircraft engine leasing and parts sales
- 2018- Acquired a minority stake in multiple companies in the decarbonization field



* Sustainable Aviation Fuel (manufactured with recyclable materials)

The aviation industry is a growth market, growing at a faster rate than the economy

Correlation

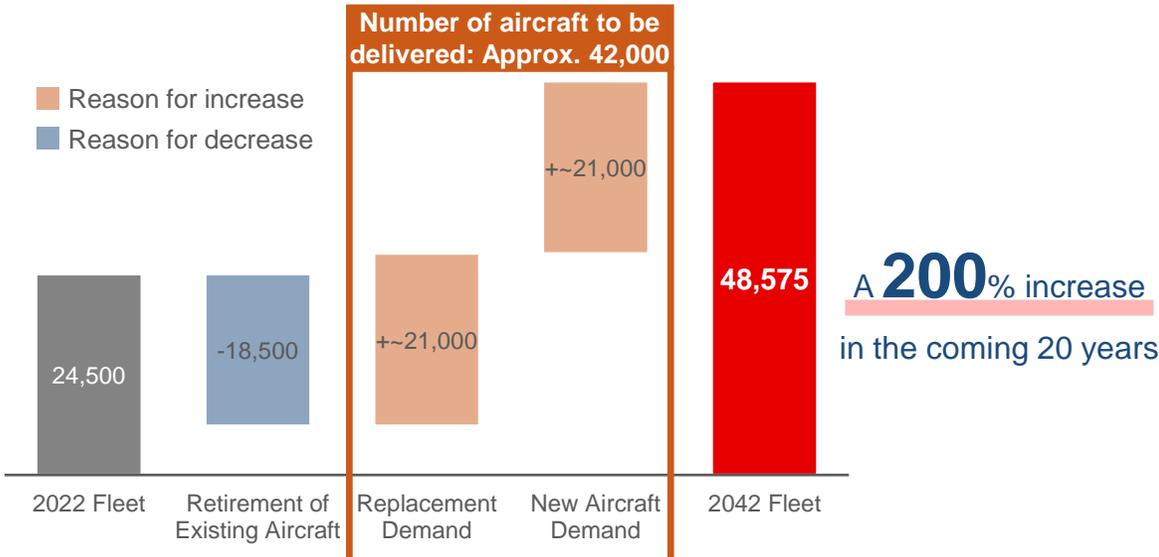
High correlations between GDP, passenger demand, and aircraft demand

Passenger Demand

In line with GDP and population growth, an average growth rate of over 3%* is expected for passenger demand and over 2%* for the aircraft fleet in the period between 2022 to 2042

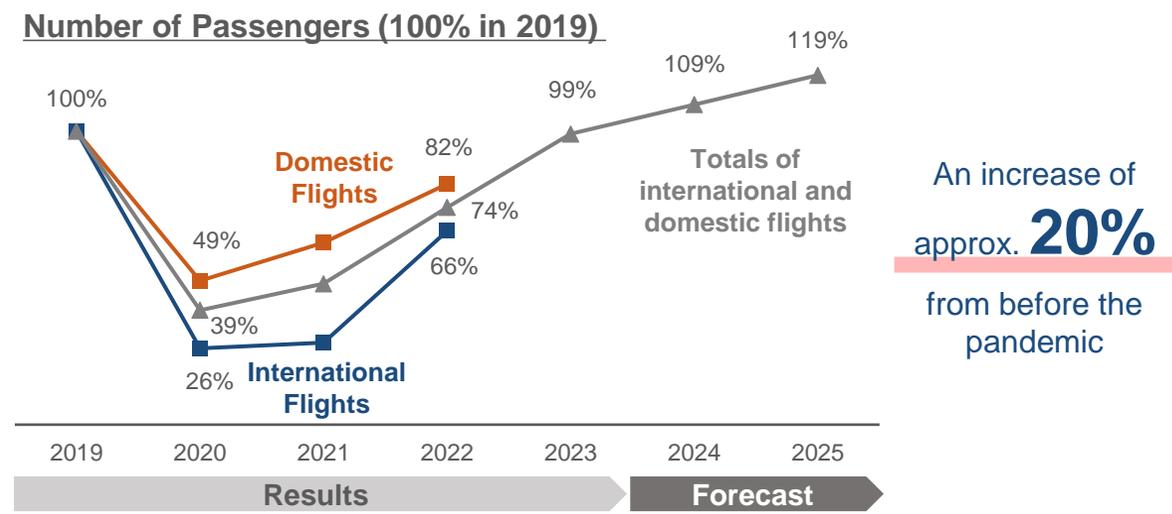
* (Source) Boeing, Airbus, Japan Aircraft Development Corporation (JADC)

【Reference】 Global Demand Forecast for Civil Aircraft (number of aircraft)



(Source) Boeing, Commercial Market Outlook 2023-2042

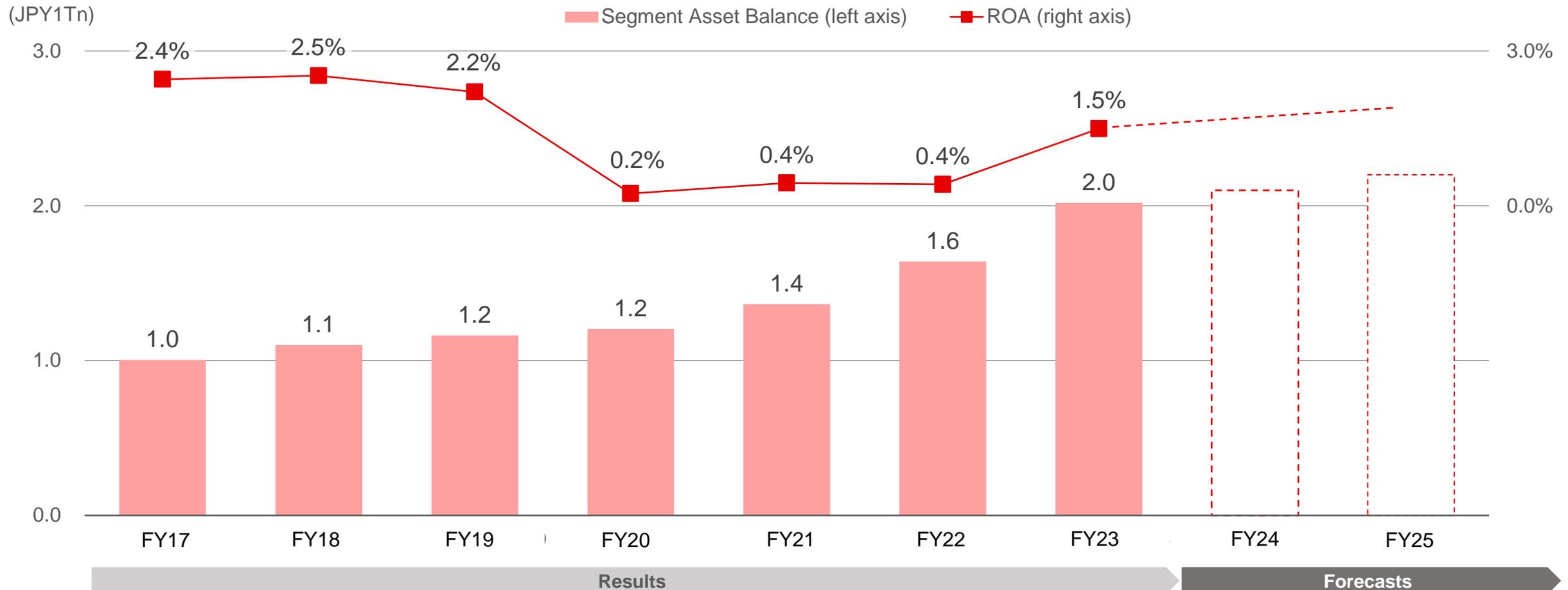
【Reference】 Recovery of the Aviation Industry from COVID-19



(Source) International Air Transport Association (IATA), Global Outlook for Air Transport (December 2022 edition, June 2023 edition, December 2023 edition, June 2024 edition)

Changes in Segment Asset Balance/ROA

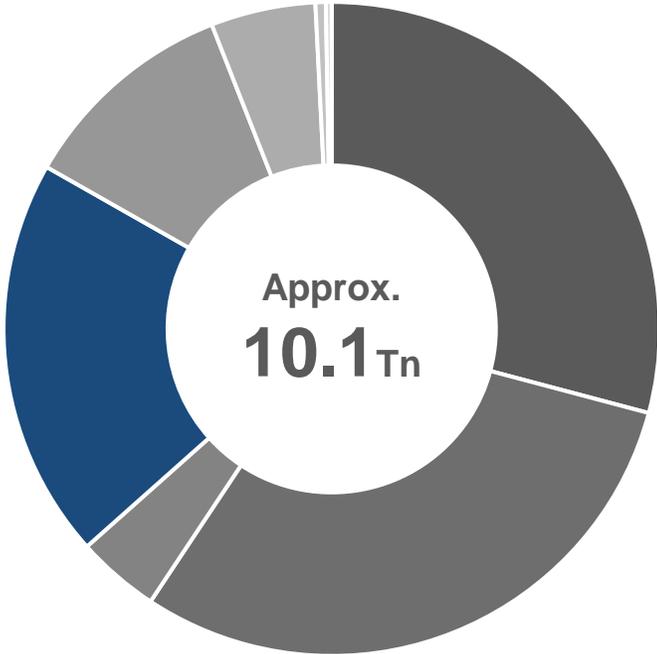
Segment profit for FY23 hit a record high of 27.3 billion yen, with ROA recovering to 1.5%.
We continued to make investments and secure profits even amid the COVID-19 pandemic and some geopolitical concerns



Position of the Aviation Segment in the MHC Group MITSUBISHI HC CAPITAL

An important segment that accounts for approx. 20% of the Group's total profit and assets, respectively

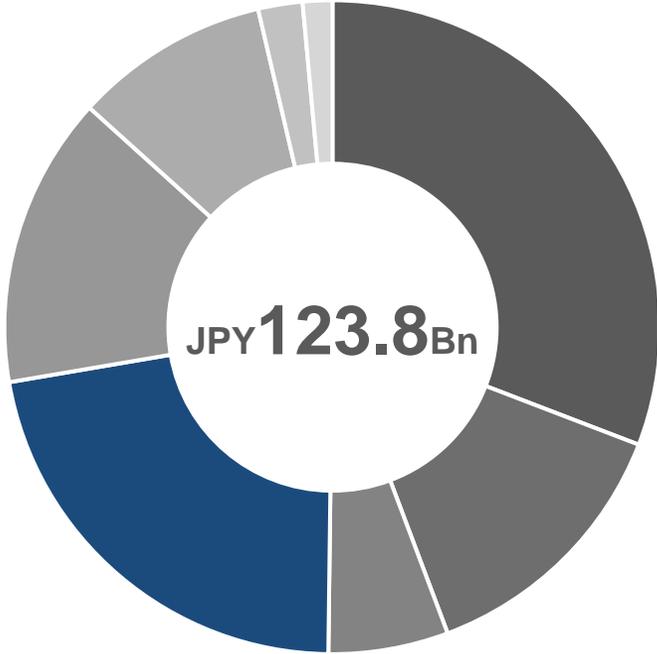
Segment Asset Balance (End of FY23)



JPY2.0Tn / 20%

Approx. JPY10.1Tn (consolidated total)

Net Income (FY23)



JPY27.3Bn / 22%

JPY123.8Bn (consolidated total)

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Strengths of Each Business ①

| | | |
|--|----------------|--|
| Aircraft Leasing (JSA)  | Business | <ul style="list-style-type: none"> ✓ Aircraft leasing (SLB*1, OEM direct orders), financing*2, and trading |
| | Business Model | <ul style="list-style-type: none"> ✓ SLB, focusing on newly manufactured and major 2 OEMs' next generation narrow-body*3 aircraft (mitigation of inventory risk) with a lease period of 10 to 12 years in average ✓ Trading/O&D (improving ROA, and maintaining young fleet age) ✓ Long-term, stable lease fee income (Average lease term remaining: 7 years), gains on sales of aircraft |
| | Strengths | <ul style="list-style-type: none"> ✓ Globally diversified portfolio with high asset liquidity of in-demand next generation aircraft ✓ Broad product base, market leadership in SLB, and a management team experienced with all cycles ✓ Ranked 13th (market value) |
| JOLCO (ABD/MHCAS)  | Business | <ul style="list-style-type: none"> ✓ JOLCO financing and equity sales, aircraft & aircraft engines sales arrangement |
| | Strengths | <ul style="list-style-type: none"> ✓ Collaboration with JSA and elfc, comprehensive transactions with airlines ✓ Mitsubishi Group's network, 1,000+ investor base |

*1 Sales and Lease Back: The method of procuring aircraft where aircraft are purchased from airline companies (i.e. customers) and then leased back to them

*2 Finance Lease and related lending products

*3 Single-aisle aircraft mainly used for domestic and short-distance flights

Strengths of Each Business ②

| | | | |
|--|----------------|------|--|
| <p style="text-align: center;">Aircraft Engine Leasing/ Parts Sales (elfc, INAV)</p>  | Business | elfc | <ul style="list-style-type: none"> ✓ Spare engine leasing (SLB, OEM direct order, inventory), trading, etc. |
| | | INAV | <ul style="list-style-type: none"> ✓ Purchase and sale of used engine parts |
| | Business Model | elfc | <ul style="list-style-type: none"> ✓ SLB of newly manufactured engines (8 to 12 years), inventory engine leasing ✓ Engine maintenance, parts replacement ⇒ maintaining asset value, sales (including to INAV) upon retirement ✓ Long-term/medium-term lease fees, engine sales proceeds, maintenance fees |
| | | INAV | <ul style="list-style-type: none"> ✓ Part-out engines acquired from multiple sources (including elfc), and sell engine parts to airlines and MROs |
| | Strengths | elfc | <ul style="list-style-type: none"> ✓ Top market share among non OEM related lessors (net book value) ✓ Provides services throughout product lifecycles from manufacturing to retirement ✓ Technical team members accounting for 25% of employees, a diversified portfolio, and fundraising and credit management capabilities |
| | | INAV | <ul style="list-style-type: none"> ✓ Stable procurement from elfc and other suppliers, appraisal and fundraising capabilities ✓ Large warehouses, repair management capabilities, large number of buyers |

The average annual growth rates are 9.0% for JSA's aircraft and 6.5% for elc's engines



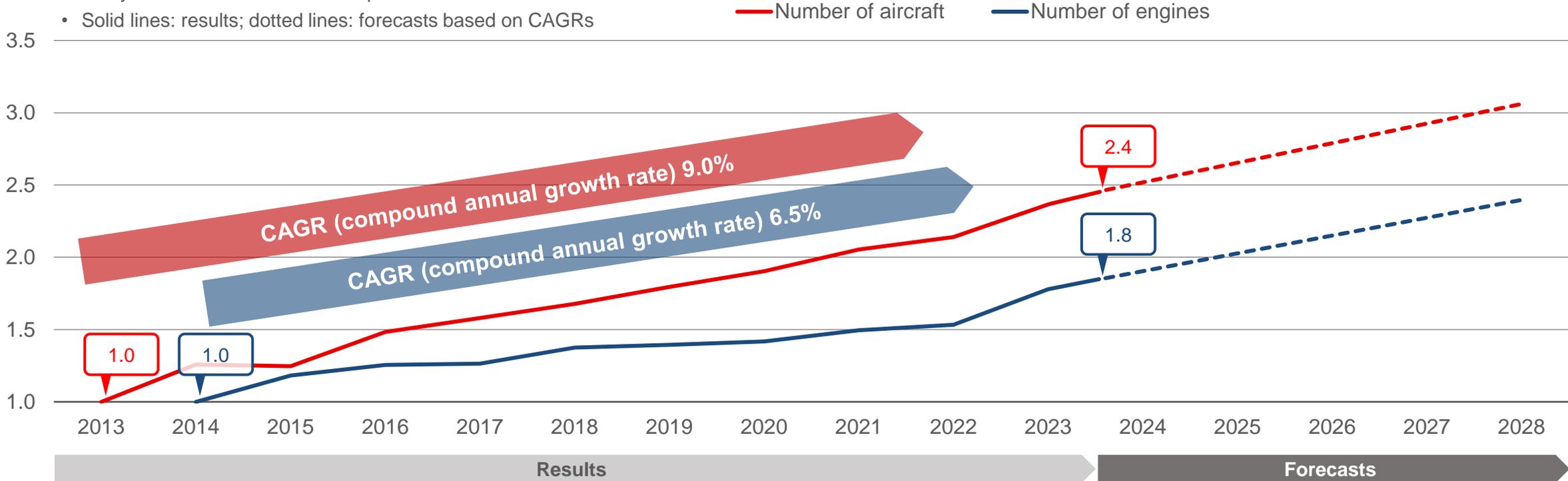
As one of the leading aircraft lessors, JSA has firmly maintained diversified portfolio and its high liquidity, and **continued growth**



As the industry leading engine lessor, elc has posted profits for consecutive years, **maintained profitability and steadily expanded.**

Changes in the Number of Owned Aircraft and Engines

- The year when JSA/elc were acquired = 1.0
- Solid lines: results; dotted lines: forecasts based on CAGRs



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Measures

Objectives

Enhancement of the Integrated Capabilities of the Group



- ✓ Expand the group product base along asset lifecycle and provide the one stop service globally to meet all customers' needs
- ✓ Strengthen fundraising, data utilization, HR, and organizational capabilities

- ✓ **Achieve stable growth and ensure high profitability by strengthening group competitiveness**

Promotion of Decarbonization

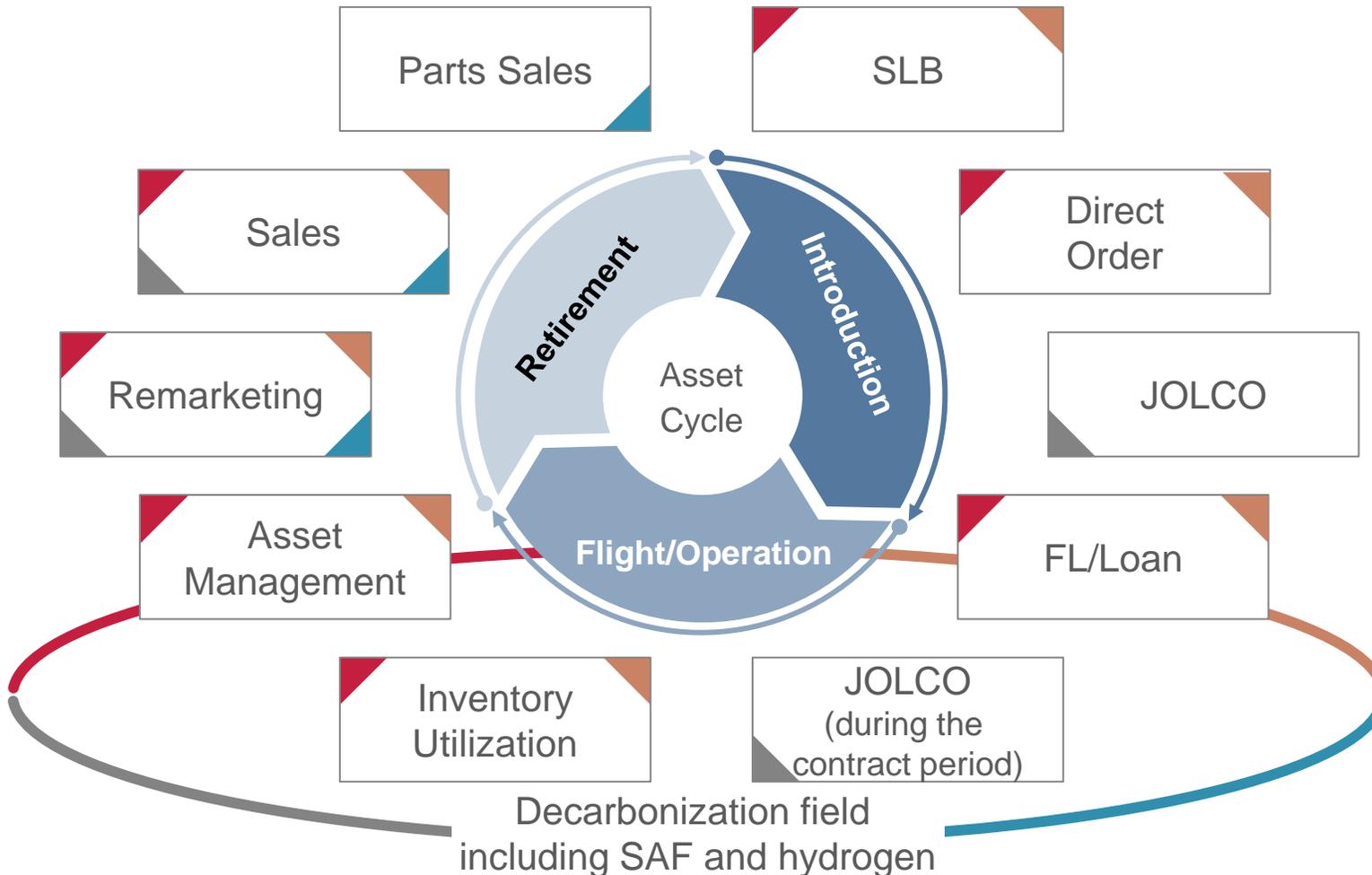


- ✓ Increase the volume of next generation aircraft and engine ratio
- ✓ New business R&D including SAF and H2 in line with the industry's policy to achieve net-zero CO₂ emissions by 2050

- ✓ **Realize medium to long-term portfolio transformation to achieve strong, continued growth**

Business Strategies (Overview of the Integrated Capabilities of the Group) MITSUBISHI HC CAPITAL

Provide one-stop, full lineup service along the asset lifecycle



Major Service Provider

JACKSON SQUARE AVIATION  elfc
 Going Further Together

 MITSUBISHI HC CAPITAL inav
 an elfc company

Point

- ✓ Provides one-stop services globally through the synergetic collaboration between JSA/elc/INAV/ABD/MHCAC in response to changes in the industry and customers' needs
- ✓ Full lineup service contributes to consistent growth

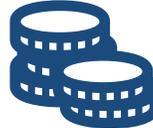
Out Strategic Positioning

Full coverage and 100% committed strategic positioning

| | Aircraft Leasing | Engine Leasing | Engine Parts Sales | JOLCO |
|--------------------|-----------------------------|------------------------------|------------------------------|-----------------------------------|
| MHC | JSA Ownership Ratio 100% | elfc Ownership Ratio 100% | INAV Ownership Ratio 100% | ABD/MHCAS Ownership Ratio 100% |
| Japanese Company A | ✓ (Joint ownership) | ✓ (Joint ownership) | | ✓ |
| Japanese Company B | ✓ | | | ✓ |
| Japanese Company C | ✓ | Minority ownership | Minority ownership | ✓ |
| Japanese Company D | Minority ownership | | | ✓ |

✓ The strategic position allows us to readily share the same thoughts as a team, and promotes effective and seamless business collaboration across the businesses with diversified products offerings

Mechanisms Supporting Growth Strategies (Risk Management Framework)

01  **Price/Value Change Risk**

Deterioration of aircraft and engine values due to changes in supply-demand balance, etc.

Mitigation

next generation aircraft and engines with high asset liquidity and resilient to inflation

02  **Credit Risk**

Impact of market changes on collection of lease fees, etc.

Mitigation

portfolio and risk diversification, screening capabilities, asset collection capabilities, collateral requirements

03  **Inventory Risk**

Return of aircraft and engines, their shift to being inventory

Mitigation

Long-term leases, asset turnover, portfolio diversification

04  **Geopolitical Risk**

Impact of regional turmoil around the world on asset value, asset recovery, etc.

Mitigation

Regional diversification, asset management and recovery know-how

05  **Interest Rate Risk**

Impact of interest rate fluctuations on fundraising costs, etc.

Mitigation

ALM* management to mitigate interest rate risk

* Asset Liability Management (comprehensive management of assets and liabilities)

Mechanisms Supporting Growth Strategies (Governance Framework)

Robust group governance accompanied by management flexibility and mobility

