Aiming to Optimize Profit Growth and Capital Efficiency Through a Balance of Financial Soundness, Return on Capital, and Growth Potential

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The value creation process is the engine of growth to realize Our 10-year Vision

Our 10-year Vision, "Together we innovate, challenge and explore the frontiers of the future," expresses our desire to "continue to be an innovator who takes on the challenge of solving social issues that only we can solve without being bound by precedents." It is also positioned as a guiding compass to guide us in the realization of Our Mission. In order to realize Our 10-year Vision, we are pursuing corporate transformation (CX) through sustainability transformation (SX), digital transformation (DX), and business portfolio transformation over the medium to long term. Specifically, we plan to steadily improve our corporate value by dividing the nine years of our three Medium-term Management Plans, which started last fiscal year, into "hop," "step," and "jump" phases. We then summarize the series of cycles through which we will improve our corporate value in the value creation process.

The key concept of our value creation process is to create value while utilizing and accumulating financial and non-financial capital classified into six categories. The process shows value creation through the investment of each type of capital and business activities, and how the resulting accumulation of non-financial capital leads to the expansion of financial capital. In other words, the value creation process is our growth engine, and we aim to resolve our material issues and realize Our 10-year Vision by repeating this cycle. While all of the five types of non-financial capital, human capital, intellectual capital, manufacturing capital, social and relation capital, and natural capital remain important, we recognize that human capital in particular is a core element that is the source of our competitive advantage and the driving force for the sustainable improvement of corporate value. We also place importance on natural capital, as it is our responsibility as a global company to contribute to a sustainable and better world. To make this value creation process work, we have set KPIs and targets not only for financial capital but also for non-financial capital for each type of capital, and we ensure the effectiveness of the process by measuring its accumulation.

For more information ► see pages 19-22, "Value Creation Process."

Financial Status

(Millions of yen)

	Fiscal 2021	Fiscal 2022	Fiscal 2023
Revenues	1,765,559	1,896,231	1,950,583
Recurring income	117,239	146,076	151,633
Net income attributable to owners of the parent	99,401	116,241	123,842
Total assets	10,328,872	10,726,196	11,149,858
Segment assets	9,345,376	9,632,966	10,179,473
Interest-bearing debt	8,066,082	8,236,106	8,439,792
ROE (%)	8.0	8.2	7.7
ROA (%)	1.0	1.1	1.1
Dividend payout ratio (%)	40.4	40.8	42.9

Under the 2025 MTMP, which is positioned as the "hop," we aim to achieve a net income of 160.0 billion yen, ROA of approximately 1.5%, ROE of approximately 10%, maintain our A credit ratings, and a dividend payout ratio of 40% or more while building a foundation to realize Our 10-year Vision by "sowing seeds" in new areas and "gaining a solid foothold" by restructuring and redefining existing areas. To achieve these targets, we are promoting Company-wide evolution and layering of business models as part of our business portfolio transformation, improving profitability and the efficiency of our existing portfolio through a shift to high value-added services and the development of new businesses.

In addition, we will make investments that lead to "sowing seeds" and "gaining a solid foothold," such as investments in new businesses, data infrastructure development, research and development, and human capital to create intellectual property and intangible assets. In this way, we will increase the value of our financial and non-financial capital and achieve sustainable growth toward Our 10-year Vision.

For more information ► see pages 33-50, "Business Strategies."

Steady progress in both financial and non-financial aspects of the 2025 MTMP

Fiscal 2023, the first year of the 2025 MTMP, was the very first step in CX, and we are pleased to see steady progress in both the financial and non-financial aspects of the plan. We achieved our financial targets for net income of 123.8 billion yen, meeting our initial forecast of 120.0 billion yen, and for ROA of 1.1%. We fell slightly short of our ROE target due to the impact of yen depreciation, which caused the denominator, equity capital, to be larger than expected when the MTMP was formulated, but we will continue to fine-tune the path toward achieving the MTMP for each segment, targeting an upside to the net income target of 160.0 billion yen in the final year of the MTMP.

In addition, progress on non-financial targets has generally been steady, including progress on each of the quantitative targets and the quantification of targets that were previously given only as qualitative targets. As for the most important human capital-related KPI, "Level of fulfillment of a talent portfolio in line with our management strategies," in fiscal 2023, we conducted an assessment of about 1,200 employees to visualize their competencies and other metrics, in order to formulate a talent portfolio that will help ensure more of the right people are placed in the right jobs. We will conduct the assessment for approximately 1,000 more employees in fiscal 2024 and pursue sophistication in order to realize the quantification of targets during the period of the 2025 MTMP. With regard to natural capital, we are making steady progress in our efforts to achieve our greenhouse gas emission reduction targets, and furthermore, we see funding through sustainable finance as one of the important methods for engagement with our stakeholders in the future. By supporting investments aimed at solving social issues, which we have set as one of our material issues, with funding through sustainable finance, we intend to improve our corporate value over the medium to long term.

Three things to balance to achieve medium- to long-term growth

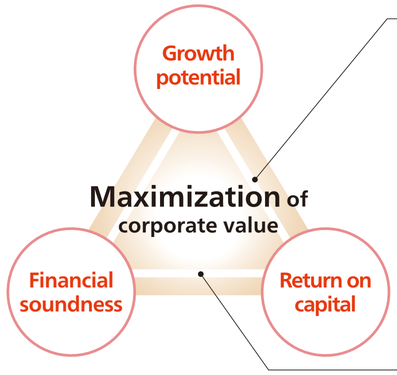
Through the business integration, we have become a corporate group with a large balance sheet of over 11 trillion yen. In light of this situation, the major direction of our financial strategy to realize Our 10-year Vision is to aim for profit growth and long-term sustainable optimization of capital efficiency by increasing asset efficiency (ROA) through the evolution and layering of business models and other measures, while allowing the balance sheet to expand only moderately. To achieve this, we believe it is important to strike a balance between financial soundness, return on capital, and growth potential. This is not an easy task, but I will explain in some detail how we will achieve it.

As a financial company with a large balance sheet, high-quality and stable funding is a lifeline. In the process of increasing profitability through the evolution and layering of business models, we believe it will become increasingly important to maintain financial soundness, including the accumulation of a reasonable amount of equity capital. On the other hand, to sustainably improve corporate value, it is also necessary to realize ROE that exceeds the cost of shareholder equity, or in other words, to pursue return on capital. In order to achieve a higher return on capital while maintaining financial soundness, we aim to improve asset efficiency (ROA) with the evolution and layering of business models. Simply pursuing a balance between financial soundness and return on capital could

Message from the CFO

fall into a diminishing equilibrium. In order to simultaneously achieve profit growth to enhance corporate value, we will also pursue growth potential by making good use of the equity capital accumulated through the balance of those two as an investment for growth. Below is an explanation of how we will pursue each of these goals.

Balance between the Three Perspectives



Concept of cash allocation

- Actively invest cash flows after paying dividends in high value-added businesses, including the development of new businesses.
- Pursue the generation of ongoing expected returns and an increase in absolute revenue by transforming the business portfolio and the quality of assets in the medium to long term, with an awareness of the cost of shareholder equity.

Achievement of an optimal balance sheet to maximize our corporate value

- Optimize our capital/debt structure according to changes in asset risks, in the course of transforming the quality of assets in the medium to long term by the evolution and layering of business models.
- Give consideration to both financial soundness (maintain A ratings) required for stable funding and return on capital (ROE).

Financial soundness and consolidated financial operations

Again, as a company with a large balance sheet, it is extremely important for us to maintain the trust of our stakeholders, including shareholders, institutional investors, rating agencies, and financial institutions, in order to raise funds and conduct business in a stable manner. As one indicator of maintaining such trust, we have set "maintain A ratings" as one of the financial targets of our 2025 MTMP. In order to achieve this goal, we do not intend to pursue excessive leverage, but rather to maintain a certain level of equity capital assessed as appropriate by rating agencies. By adhering to a stable and solid financial discipline, we have been able to maintain top credit ratings compared to our industry peers.

Maintaining one of the Highest Ratings in the Industry

	JCR	R&I	S&P	Moody's
Issuer rating (outlook)	AA (stable)	AA (stable)	A- (stable)	A3 (stable)
Short-term rating	J-1+	a-1+	A-2	P-2

As of March 31, 2024, our interest-bearing debt was approximately 8.4 trillion yen, growing to the top five among Japanese companies (excluding the banking and securities industries). In light of this situation, in the area of finance, we are working on three key areas: (1) securing high-quality funds by leveraging the creditworthiness of the entire consolidated Group, (2) expanding debt capacity (funding capacity), and (3) maintaining a risk management system that can withstand a financial crisis.

We recognize the importance of stable funding of foreign currencies, which account for approximately 60% of interest-bearing debt, and have established a global system in which our major sites in Japan, the Americas, and Europe, where our businesses are large-scale, control funding within their respective regions, basically from financial institutions and investors in the regions where they conduct their businesses. In addition, we are expanding debt capacity on a consolidated basis by enhancing the Group's presence on a global basis through the promotion of investor relations (IR) and the expansion of funding in the market in these three regions. As a result, the Group has good business relationships with more than 100 financial institutions.

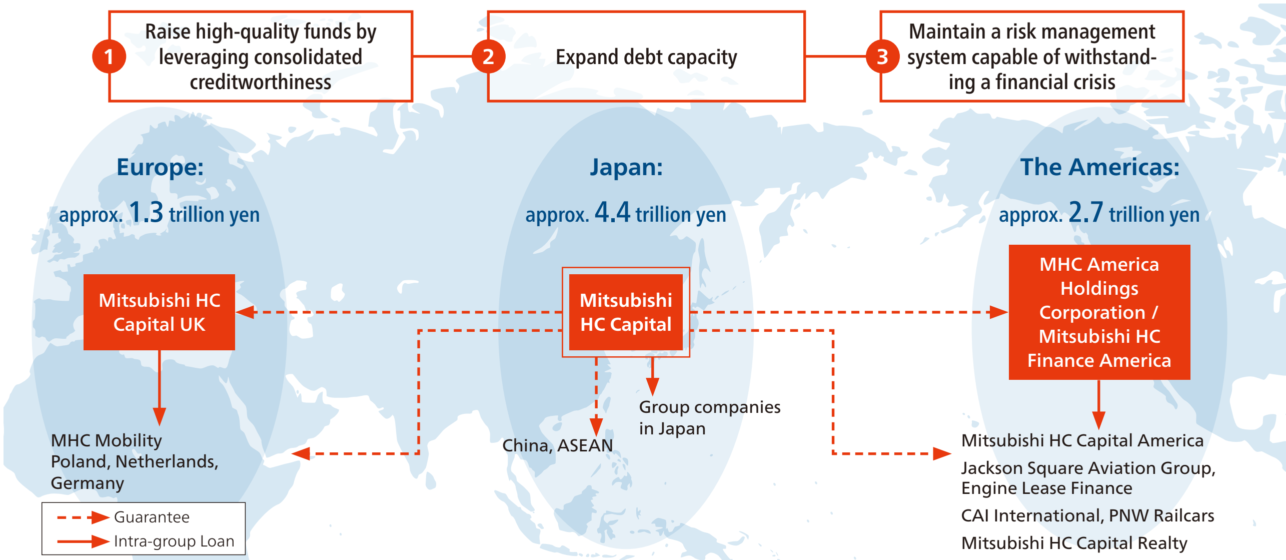
With regard to our risk management system, we have established a system that can appropriately respond to interest rate fluctuation risk through asset and liability management (ALM) based on financial discipline on a consolidated basis. In addition, based on the experience of the financial crisis triggered by the bankruptcy of Lehman Brothers and other events, we are continuously implementing liquidity management to deal with the risk of unexpected events (tail risk) in the financial markets.

Return on capital

We are working to improve return on capital through the evolution and layering of business models. There are two major ways to improve capital efficiency (ROE): increasing asset efficiency (ROA) and increasing financial leverage. However, as I mentioned in the financial soundness section, we do not intend to excessively increase our financial leverage in order to maintain our financial soundness. We are working to improve asset efficiency by shifting to high-value-added businesses such as "finance + services," "data utilization platform services," and "asset utilization business" through the evolution and layering of business models.

To this end, portfolio management with an awareness

Establish a Funding Structure Centered on Japan, the Americas, and Europe



*1 Guarantees from Mitsubishi HC Capital to Mitsubishi HC Capital UK are limited to medium-term notes (bonds issued under a single program that stipulates various forms of issuance, such as scheme and currency used) and commercial paper.
*2 Some Group companies raise funds on their own.

of the cost of shareholder equity, including the decisive replacement of assets, is extremely important. As we have multiple businesses with different risk characteristics, we calculate the weighted average cost of capital (WACC) for each business and use it as a risk-return guideline when considering new businesses such as strategic investments. We also analyze and visualize the profitability of each business from the perspective of whether the profitability of existing businesses (ROIC) covers the WACC of the business in question, and use this information to consider restructuring plans, withdrawal policies, or asset replacement for businesses with low profitability. The results of this analysis are shared with the Board of Directors, and we continue to use them in high-level discussions such as Company-wide strategic allocation of management resources in order to maintain and improve return on capital.

Growth potential

I believe that we have great potential for steady growth in the future. Our strong and well-diversified portfolio, consisting of domestic and overseas leasing and financing businesses conducted by the Customer Solutions segment and Global Business segment, which are the backbone of our Group, and five specialized businesses (Environment & Energy, Aviation, Logistics, Real Estate, and Mobility), has the potential for further profit growth and asset efficiency through the evolution and layering of business models and the decisive replacement of assets.

I believe that inorganic growth through strategic investments as well as organic growth in each of our business domains are indispensable to achieve this growth. In the post-integration period alone, we have made a number of large investments in the following domains: the acquisition of CAI International, a US marine container leasing company (2021), the conversion of CenterPoint Development, a domestic logistics facility development and management company, into a subsidiary (2023), and the investment in European Energy, a European renewable and next-generation energy company (2024). CAI has already become one of our core businesses driving our growth. We intend to make several strategic investments for further growth in the future while also replacing assets.

In addition, as initiatives for further future growth, we are aggressively promoting Company-wide initiatives such as "Key Themes across Segments" and "Frameworks to Promote Transformation" which I will describe next.

For more information ► see pages 51-52, "Key Themes across Segments."

Frameworks to promote transformation

Under the 2025 MTMP, the theme of which is corporate transformation, we are promoting frameworks to promote transformation, consisting of three pillars, with the aim of raising the awareness of each and every employee toward transformation.

In the first pillar, "lay" the foundation of transformation, we are conducting a Company-wide survey on the degree of penetration of the 2025 MTMP and implementing a number of measures based on the survey results. Through these steady efforts, we feel that we are making steady progress in fostering an awareness of transformation among all employees.

Message from the CFO

In the second pillar, "create" transformation, in fiscal 2023, in addition to implementing the intra-entrepreneurship program (first round) and the business idea contest, we have introduced a new organizational evaluation system to promote transformation. In the intra-entrepreneurship program, two projects that passed the final screening are currently undergoing verification for commercialization, and we have been promoting a more powerful program (second round) in fiscal 2024 based on the issues raised in the first round of the program. I hope that by having all employees see the business ideas that fellow employees have proposed as challenges for transformation and the recognition they have received, the momentum toward transformation will accelerate even further.

The third pillar, "promote" transformation, encourages the creation of new services and the development of new businesses by investing in startup companies through the Innovation Investment Fund, an investment fund with a total value of 10.0 billion yen. This fund has been utilized in 15 projects with an investment amount of over 1.7 billion yen from fiscal 2023 to September 2024. The thought process of developing new businesses through open innovation with startup companies has begun to take root, and we will continue to encourage growth through the use of this fund.

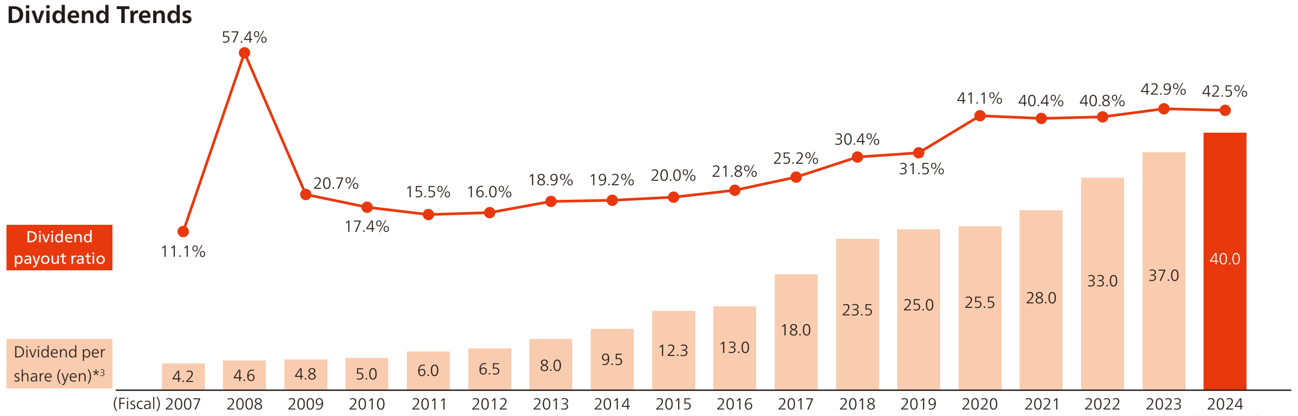
Conducting management with an awareness of the cost of shareholder equity in order to increase corporate value

In order to achieve sustainable profit growth and enhance our corporate value over the medium to long term, we have stated that we believe it is important to balance three perspectives in our financial strategy. Based on this premise, I would like to explain our management with an awareness of cost of shareholder equity.

The price book-value ratio (PBR) has a theoretical relationship of "PBR = expected ROE x expected PER = expected ROE x 1 / (r (cost of shareholder equity) - g (expected profit growth rate))." Based on this decomposition formula, in order to achieve a PBR of 1x or more, we have adopted a straightforward approach: "Achieve ROE that sustainably exceeds the cost of shareholder equity while continuing to grow profits." By achieving profit growth and ROE that exceeds the cost of shareholder equity, we hope to raise the capital market's growth expectations for the Group and, by making this more sustainable, we hope to raise the PER. In addition, we intend to further raise the PER by steadily accumulating non-financial capital, which will lead to an increase in financial capital, and by reducing the cost of shareholder equity through appropriate engagement with the capital market and other stakeholders. Since these elements are interrelated, we aim to increase corporate value, including a sustainable increase in PBR, by promoting them in an integrated manner.

The following is our plan to improve PBR from the two perspectives of ROE and PER and what we are specifically focusing on. Currently, we recognize the cost of shareholder equity for the Group to be approximately 10%. Based on this recognition, we have set ROE of approximately 10% as one of the financial targets in the 2025 MTMP, aiming to first raise ROE to the same level as the cost of shareholder equity. As I have explained, we plan to achieve this by improving asset efficiency (ROA) through the evolution and layering of business models while promoting asset replacement, including new investments, and portfolio management based on the strategy and risk characteristics of each business, thereby improving our reputation in the capital market. In addition, the Company will try to lower the cost of shareholder equity by reducing ESG risks, enhancing information disclosure including financial and non-financial information, and further actively promoting constructive dialogue with the capital market. In July 2024, we held the first Business Segment Meeting in which the heads of the Aviation and Logistics businesses engaged in a dialogue with the aim of improving our shareholders, investors, and other stakeholders' understanding of our business. I do not believe that reducing the cost of shareholder equity will be achieved in the short term, but it is important that shareholders and investors feel that Mitsubishi HC Capital has transformed through such steady efforts as we continue our unceasing efforts to reduce the cost of shareholder equity.

Dividend Trends



*3 Figures for fiscal 2007-fiscal 2020 are results for Mitsubishi UFJ Lease & Finance

Providing returns to shareholders through dividends

So far, we have stated that our goal of increasing corporate value is to achieve ROE that exceeds the cost of shareholder equity on a sustainable basis, accompanied by profit growth, and that we will achieve such ROE by taking on more risk than before without excessively expanding the balance sheet to increase returns and raise asset efficiency (ROA), both of which we will achieve through a straightforward approach. In light of the above, one can see that while shareholder return measures such as share buybacks are an immediate ROE improvement measure (affecting the denominator), they are somewhat different from the steady process of improving corporate value that we aim to achieve. Our policy is to return profits to shareholders in the form of dividends in principle, taking into consideration the balance between securing the capital buffer necessary for profit growth and financial soundness, which affects funding costs.

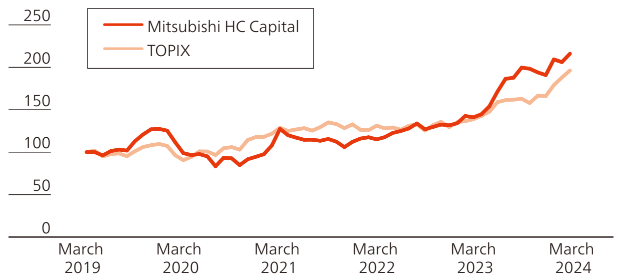
Regarding dividends, we have a solid track record of returning profits to shareholders, having increased dividends for 25 consecutive fiscal years. We believe it is important to provide stable dividends in line with profit growth, and we have gradually increased the dividend payout ratio, targeting 40% or more since fiscal 2020.

Total Shareholder Return

	1 year	3 years		5 years	
		Cumulative	Annualized	Cumulative	Annualized
Mitsubishi HC Capital	+61.8%	+74.9%	+20.5%	+116.0%	+16.7%
TOPIX	+41.3%	+52.5%	+15.1%	+96.2%	+14.4%

*4 Total shareholder return (TSR): Total return on investment including capital gains and dividends.
*5 TSR is calculated for Mitsubishi HC Capital based on accumulated dividends and stock price fluctuations, and for TOPIX based on a stock price index including dividends (prepared by the Company based on Bloomberg data, etc.).
*6 The values in the graph are indexed to the market value based on TSR, with the closing price data as of March 31, 2019 as 100 (holding period is until March 31, 2024).

TSR (5-year history)



*7 Figures for fiscal 2018-fiscal 2020 are results for Mitsubishi UFJ Lease & Finance

To our stakeholders

Throughout my career, which has been focused on the treasury division both in Japan and overseas, I have kept the principle of always being fair. When there are opposing viewpoints or issues that need to be resolved, I have always tried to make management decisions from a fair perspective rather than being biased toward one side or the other. We are in the most important period of transformation since the foundation of our Group. I believe that during such a period of transformation, I will be able to make flexible management decisions by concurrently serving as the Head of the Treasury & Accounting Division as CFO and the Head of the Corporate & Strategic Planning Division as CSO. In my previous explanations, I have mentioned the importance of balancing three things in enhancing our corporate value over the medium to long term. In other words, this means striking a balance between using the accelerator and brake while driving a vehicle with diverse passengers. I am determined once again to enhance our corporate value while always keeping a fair perspective based on the condition of the passengers and of the road. We will continue to return the fruits of our profit growth in the form of corporate value to all of our stakeholders. I look forward to your continued support of our Company.