

MCSV Creation Forum
Investor Day 2026

2 Initiatives to Drive Value Creation and Capital Efficiency

Executive Vice President,
Chief Financial Officer
Yoshihiro Shimazu

My name is Yoshihiro Shimazu, CFO.

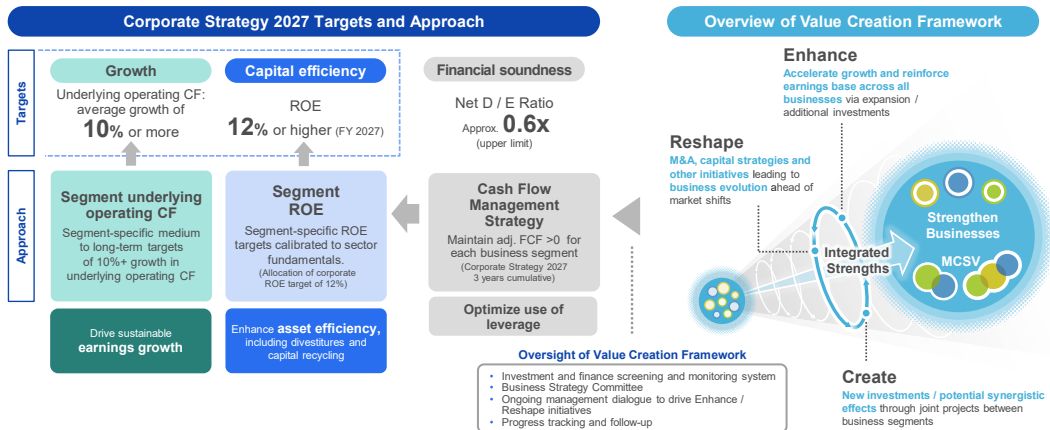
Let me briefly introduce myself. Most recently, I served as General Manager of the Corporate Accounting Department. Prior to that, I held roles within the Machinery and Living Essentials segments, was seconded to Mitsubishi Motors, was stationed in China, and worked in the Corporate Strategy & Planning Department. I assumed my current position as CFO this April.

Thank you for joining us today.

Today, I will outline the operating model that enables the delivery of our targets for Corporate Strategy 2027.

1. Operating Model Driving Sustainable Growth

- We established segment-specific targets for underlying operating CF and ROE across all business segments, backed by our cash flow management strategy, to drive both growth and capital efficiency.
- We expect to deliver our overall corporate targets through the operating model below.



Operating Model Driving Sustainable Growth

Under Corporate Strategy 2027, our aim is to simultaneously achieve high growth and capital efficiency.

First, with respect to growth, our goal is to sustainably deliver an average growth rate of over 10% in underlying operating cash flow. This target has been assigned to all business segments since the launch of Corporate Strategy 2027.

Turning to capital efficiency, we have set a corporate ROE target of 12% or higher by FY2027. To support this at the operational level, we have introduced an approach where specific ROE targets are set for each business segment, calibrated to their respective sector fundamentals. I will cover this in more detail later.

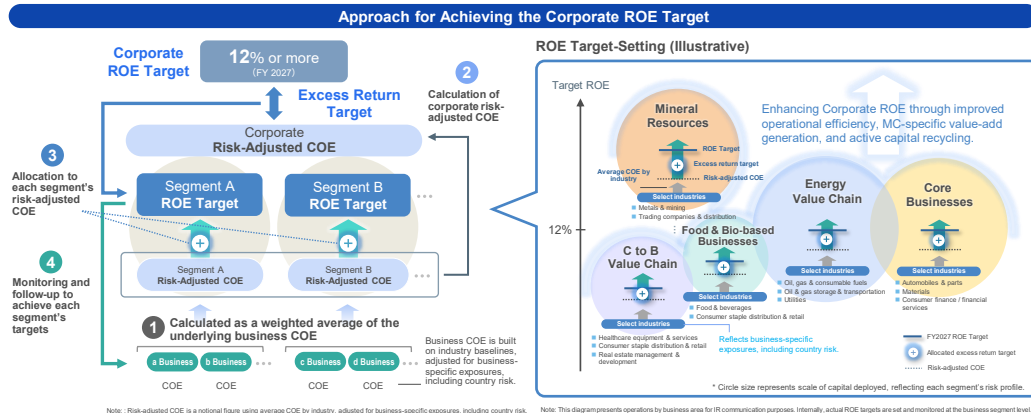
In terms of financial soundness, we maintain an upper guideline of approximately 0.6x for the net D/E ratio. At the same time, we have implemented a cash flow management strategy requiring each business segment to maintain positive free cash flow, thereby empowering segments to independently optimize their portfolios, including asset replacement.

On this basis, and while ensuring financial soundness, we will determine the effective use of leverage at the corporate level.

I will also walk through the ongoing monitoring and follow-up processes that support our Value Creation Framework.

2. Operating Model for Setting and Managing ROE Targets

- We define the risk-adjusted cost of equity (COE) for both the company and individual segments based on their specific required rates of return.
- Segment-specific ROE targets are then set by allocating the excess returns necessary to achieve our corporate ROE target of 12% or higher.
- We established a monitoring and follow-up process to drive continuous improvement in rates of return across each business in line with these targets.



Operating Model for Setting and Managing ROE Targets (1/2)

Let me now turn to our operating model for achieving our corporate ROE target.

As mentioned earlier, we have established ROE targets for each business segment for FY2027, to support our overarching goal of a 12% or higher corporate ROE.

We have not previously explained this capital efficiency approach in detail, so I would like to take this opportunity to do so.

For each business, we determine a risk-adjusted cost of equity based on industry benchmarks, while incorporating business-specific risk factors.

We then calculate a weighted average to arrive at the risk-adjusted cost of equity for each business segment. The corporate weighted average is then regarded as our overall risk-adjusted cost of equity.

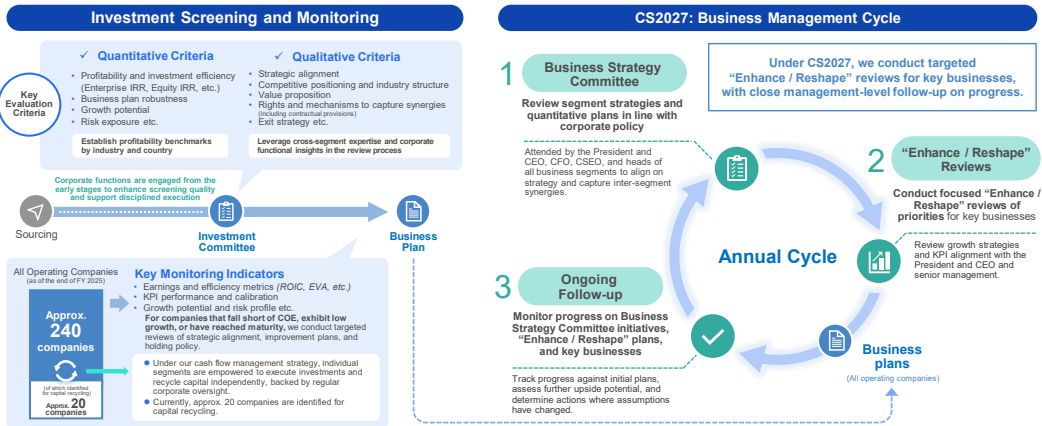
The required excess return, defined as the difference between this cost of equity and the ROE target, is allocated to each business segment and set as its specific ROE target.

As each segment works to achieve and exceed its target, the company as a whole is structurally aligned to achieve an ROE of 12% or higher.

From a management perspective, we conduct tailored monitoring and follow-up at the business level to maximize these excess returns.

3. Business Management Cycle and Monitoring Process

- Individual investment and financing projects are evaluated with strict discipline from both quantitative and qualitative perspectives.
- We review all our investments annually to assess changes in the macro environment, strategic alignment, growth potential and capital efficiency. This drives continuous portfolio enhancement through targeted additional investments and active capital recycling.
- Beyond individual project reviews, management conducts annual discussions on each segment's overarching business strategy and quantitative plans to ensure the delivery of our corporate targets.



Business Management Cycle and Monitoring Process (1/3)

As I mentioned earlier, achieving both segment ROE targets and our corporate ROE target requires each business to generate returns above its risk-adjusted cost of equity and deliver additional excess returns.

To support this, we apply rigorous investment screening and ongoing monitoring.

Let me walk you through these processes.

At the time of each investment or financing decision, we assess not only quantitative criteria—such as the ability to achieve returns above the risk-adjusted cost of equity—but also qualitative factors, including strategic rationale, our value-add as MC, and exit strategy.

Decision-making authority varies depending on the size and characteristics of each investment. For large-scale investments involving significant risk capital, decisions are made through comprehensive discussions among senior management across business segments.

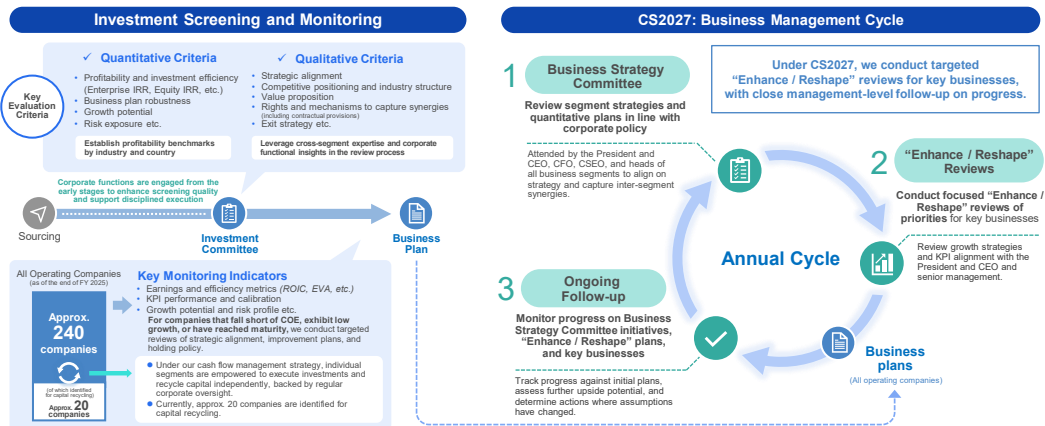
After an investment is executed, we conduct annual reviews of each investment through a formal business plan process.

In these reviews, we evaluate KPI performance, future growth prospects, risks, and holding strategies, together with the corporate functions.

In particular, for businesses that fall below their risk-adjusted cost of equity, exhibit slowing growth, or have reached maturity, we conduct a detailed review of strategic alignment, improvement plans, and holding policies.

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Business Management Cycle and Monitoring Process (2/3)

Since the launch of Corporate Strategy 2027, approximately 20 companies have been identified for divestiture based on these reviews.

As mentioned earlier, our segment ROE approach and cash flow management strategy have been fully implemented across all business segments. These mechanisms are designed to empower segments to independently replace businesses with relatively lower profitability or weaker strategic positioning, particularly as we pursue new growth investments.

As a result, portfolio replacement activity is expected to increase going forward.

The diagram on the right illustrates our overall business management cycle.

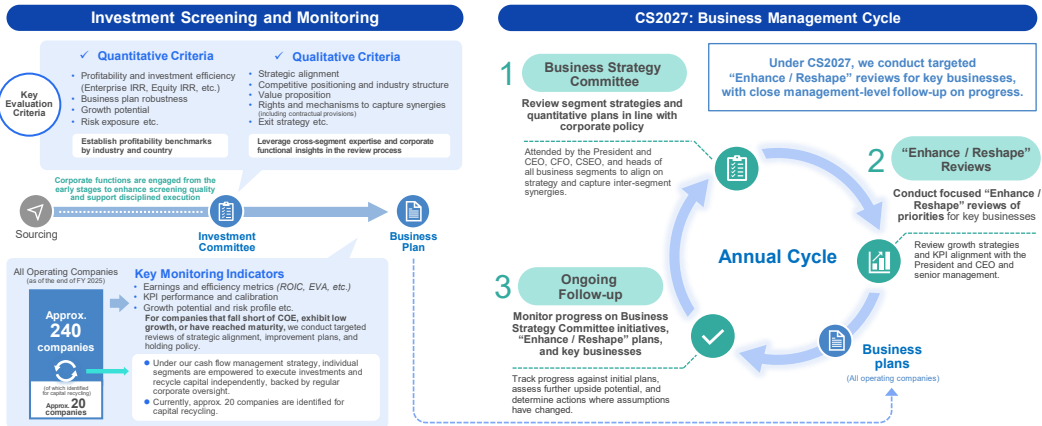
At the corporate level, we hold an annual Business Strategy Committee meeting, where we review medium to long-term strategies and quantitative plans for each business segment to ensure they are aligned with our corporate strategy.

These sessions are attended by senior management, including the President and CEO, as well as the heads of all business segments. Together, the Committee assesses progress against business plans and actively explores opportunities for cross-segment alignment and synergies.

During the Corporate Strategy 2027 period, we have also introduced additional "Enhance / Reshape" reviews, conducted primarily with businesses expected to drive future growth. These involve in-depth discussions between the CEO and business segments on KPI validity, business plans, and required actions.

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Business Management Cycle and Monitoring Process (3/3)

In addition, we conduct follow-ups to monitor progress during the course of the fiscal year.

In summary, our operating model consists of:

- A corporate strategy that sets overall direction
- The Business Strategy Committee, which ensures alignment, captures synergies, and reviews medium to long-term plans
- "Enhance / Reshape" reviews that support steady earnings growth

Investment and financing decisions are evaluated rigorously from both quantitative and qualitative perspectives.

Following execution, performance is monitored through annual business plan reviews, complemented by ongoing follow-ups throughout the year to enable timely and appropriate actions.

These processes are complemented by ongoing follow-ups throughout the year, enabling timely and appropriate actions in response to market changes.

We remain committed to this disciplined management process to ensure we meet our corporate targets.

Thank you.