

Q & A at Investors Meeting on May 13, 2022 (FY2021)

Tokyo Century Corporation

<Financial Results for the Fiscal Year Ended March 31, 2022>

Q.

Looking back on fiscal 2021 results, excluding one-time factors such as the aviation business that recorded a large impairment loss and gains on sales, I see continued organic growth. How do you assess the increase in core earnings?

A.

Overall, we see core earnings remain strong, aside from the aviation business, which was affected by the prolonged spread of COVID-19 and the situation in Russia and Ukraine.

Let us explain by segment. In the Equipment Leasing segment, ROA has improved as a result of operations with a focus on asset efficiency and the promotion of strategic alliances. In particular, NTT TC Leasing Co., Ltd., a joint venture with Nippon Telegraph and Telephone Corporation (NTT), achieved better results than expected. Although we recognize the overall severity of the business environment, with leasing capital expenditures in Japan decreasing about 20% from pre-COVID-19 levels, we believe that our earnings power has steadily improved.

In the Mobility & Fleet Management segment, we have made dedicated efforts to reform the structure of our car rental business centered on Nippon Rent-A-Car Service, Inc. (NRS). We have improved our business structure to generate sufficient earnings even if our revenues are a little less than 90% of the pre-COVID-19 level in fiscal 2019. In addition, the auto leasing business for corporate customers, led by Nippon Car Solutions Co., Ltd. (NCS), reached a record high due to the sale of used cars and the success of the ongoing initiatives geared toward the enhancement of service quality.

In the Specialty Financing segment, while the gain on sale of real estate was higher than in previous years, earnings from the shipping and principal investment business were also strong. Excluding the special factors of Aviation Capital Group LLC (ACG), our initiatives are progressing as planned.

In the International Business segment, profitability increased steadily as CSI Leasing, Inc. (CSI), a U.S. subsidiary, grew at a double-digit level, and our efforts for the business structural reforms that have been working on in the Asia business bore fruit.

<FY2022 Full-Year Consolidated Results Forecasts>

Q.

Regarding ordinary income in the fiscal 2022 plan, what is the reason for the discrepancy between the amount of ¥100 billion announced as the consolidated results forecast and the ¥130 billion stated in the New Fourth Medium-Term Management Plan?

A.

We believe that ACG is the main factor behind this divergence because its aircraft leasing business has

yet to fully recover. Besides, we factor in market risks such as a rise in interest rates in the U.S. dollar and an increase in the cost of funds due to a shift to long-term funding. We consider our businesses other than ACG to make progress as expected.

<Management Strategy>

1. Business Environment

Q.

What impact will changes in the macro-environment, such as the supply chain, rising interest rates, and a weak yen, have on Tokyo Century's business?

A.

We are paying close attention to the stagnation of the supply chain, primarily in semiconductors, in terms of handling goods such as PCs and cars in the leasing business. On the other hand, Tokyo Century's business has considerable earnings opportunities associated with the reuse of products. Therefore, we would like to consider this a positive factor for our business performance.

As for rising interest rates, particularly in the U.S., the unhedged portion of foreign currency funding is expected to be affected. However, this impact has already been taken into consideration to a certain extent in the full-year results forecast for fiscal 2022.

Q.

What are the pipelines and business areas that can reaccelerate earnings growth?

A.

Basically, we will continue our seven pillars of business strategies (aviation business centered on ACG, auto business centered on NRS, collaboration with NTT, real estate business, environment and energy businesses, collaboration with Advantage Partners Group, and global business centered on CSI) that we have stated. Amongst them, ACG and NRS were significantly affected by COVID-19. However, given the current situation where a V-shaped recovery of NRS with a view to renewing its peak to date is not far in the future, we believe that the top priority is how to revive ACG. At present, we expect ACG to recover to its pre-COVID-19 level profitability around 2024 to 2025. Furthermore, in terms of long-term recovery of its earnings base, ACG is forging ahead with new investments, such as announcing an order for 60 next-generation aircraft, for which demand is expected to be high, at the end of December last year. In addition, we are looking forward to the contribution to earnings from large-scale urban development projects in the real estate business and further acceleration of collaboration with NTT; therefore, we will strive for a growth path going forward.

2. Car Rental Business

Q.

Amid the COVID-19 pandemic, the number of vehicles owned has decreased. However, will the current number of vehicles be sufficient if the number of foreign visitors increases shortly due to the reopening to

inbound tourists?

A.

Before the outbreak of COVID-19, NRS had a fleet of around 47,000 vehicles. During the pandemic, they were temporarily reduced to around 42,000; however, considering that demand will recover, we have already made arrangements to increase the number of vehicles, and we believe we are able to respond to customers' needs as necessary.

3. Aviation Business

Q.

Of about \$600 million in exposure to Russia, \$380 million for the eight owned aircraft will be recorded as an extraordinary loss in fiscal 2022 results. Please explain why you are not recording a loss on the provision for financing and loan guarantees of the remaining about \$200 million.

A.

We would like to refrain from giving details on individual transactions, and we hope that you understand that we have taken appropriate measures in accounting.

Q.

Concerning the insurance on aircraft for Russian airlines, I assume that war may be a cause for exemption. Please tell us the status of negotiations with insurance companies regarding payment.

A.

We would like to refrain from commenting on the status of discussions with insurance companies. Your understanding is appreciated.

Q.

In light of the prolonged COVID-19 pandemic and the impairment loss on aircraft leased to Russia, please tell us about the possibility of the impairment loss on goodwill that Tokyo Century recorded at the acquisition of ACG.

A.

We regard the impairment of the aircraft to Russia as a transient factor, so we do not assume that it will be immediately judged as an impairment of goodwill. We cannot eliminate the risk of a deterioration in the business environment, such as a further prolongation of COVID-19. However, we have made our decision based on the assumption that the pandemic will be brought to an end and calm down to a certain extent, and progress will be made in line with the aviation market recovery scenario announced by the International Air Transport Association (IATA).

Q.

What is ACG's funding environment?

A.

ACG plans to procure funds continuously, mainly through the issuance of corporate bonds. As a result, interest costs are expected to rise when corporate bonds are redeemed and new bonds are issued. For reference, ACG does not plan to redeem large amounts in fiscal 2022. Although ACG anticipates an increase in costs from the floating rate funding implemented in part, the impact has been included in the fiscal 2022 results forecast of Tokyo Century.

Q.

ACG placed a new order for aircraft before the situation in Russia and Ukraine. However, please tell us if you expect business pipelines to be built up properly in the future, even excluding aircraft leased to Russian airlines.

A.

Currently, ACG is making steady progress regarding the status of lease contracts for ordered aircraft to be received from fiscal 2022 onward, mainly for U.S. airlines, where demand is rapidly recovering. In addition, a total of 60 next-generation aircraft of Airbus, the A320neo series and A220 series, announced at the end of December 2021, are next-generation aircraft with high fuel efficiency, so we expect replacement demand for aircraft by airlines.

Q.

What is the balance of the lease premium for ACG aircraft recorded on the consolidated balance sheet of Tokyo Century?

A.

When ACG became a wholly owned subsidiary of Tokyo Century in December 2019, it had an outstanding balance of about ¥30 billion. However, as a result of subsequent write-downs, this balance has now fallen to about half of that amount.

4. Geopolitical Risks in Overseas Operations

Q.

Please let us know if there are any changes in or impacts on other overseas businesses in the wake of the situation in Russia and Ukraine.

A.

We do not anticipate a direct impact on other overseas operations. However, going forward, the Tokyo Century Group will continue to take into account the impact of geopolitical risk and country risk on its business portfolio.

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