

Major Risks, Management Frameworks, and Risk Management

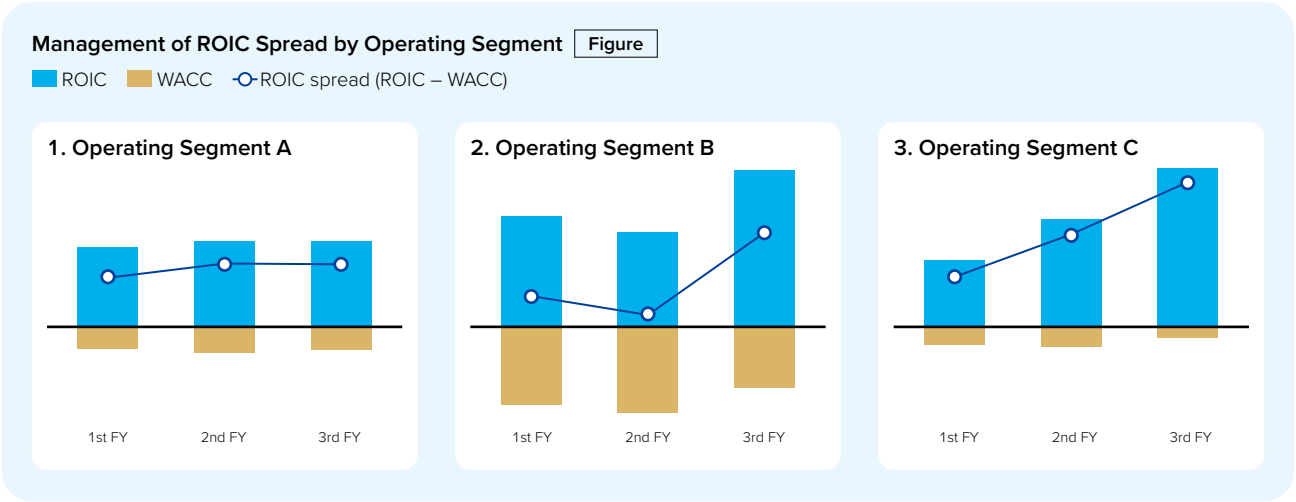
As part of the process for screening investments under this framework, it is confirmed whether the present value (calculated as cash flows after taxes attributable to the Company and discounted based on cost of capital) is greater than the investment amount, whether the business area targeted for investment conforms with business portfolio strategies, and whether appropriate triggers for withdrawal decisions have been set. After such confirmation, the Investment Management Committee meets and multifaceted evaluations are conducted by dedicated divisions with regard to projected risk exposure, legal risks, and taxation circumstances. The decision of whether to conduct a specific investment is made by the Management Meeting based on comprehensive discussions taking into account the evaluations by the Investment Management Committee.

After investment, projects will continue to be monitored through standardized processes. Charts detailing profit margins after deduction of cost of capital are prepared for all applicable projects, and confirmation is sought regarding whether any projects have become applicable under shared or individual withdrawal standards. The Investment Management Committee compiles the results of evaluations into annual monitoring reports, which are submitted to the Management Meeting and the Board of Directors.

If a project is judged to have become applicable under withdrawal standards, the Investment Management Committee will suggest withdrawal to the Management Meeting. Should a sales organization seek to maintain an investment even after the project has become applicable under withdrawal standards, the Investment Management Committee will evaluate the appropriateness of continuation, and the final decision will be made by the Management Meeting based on comprehensive discussions taking into account the evaluations by the Investment Management Committee.

➔ ROIC Monitoring in Operating Segments

Tokyo Century regularly monitors the return on invested capital (ROIC) spread, which is ROIC less weighted average cost of capital (WACC), as a cost-of-capital-based indicator of the risk-and-return balance of specific business areas reflecting business and risk characteristics. Moreover, this timing-based monitoring approach is used to promote management that emphasizes cost of capital along with sound financial discipline. Factors examined through this monitoring include whether an appropriate balance is being maintained between risks and returns in different operating segments and whether the necessary risks are being taken to generate value and stimulate growth. Under Medium-Term Management Plan 2027, the Company continues its approach toward managing risks and returns with an emphasis on cost of capital. At the same time, enhancements to this approach are being pursued by reviewing methods for managing the ROIC spread by operating segment and incorporating this indicator into performance evaluations and portfolio allocation.

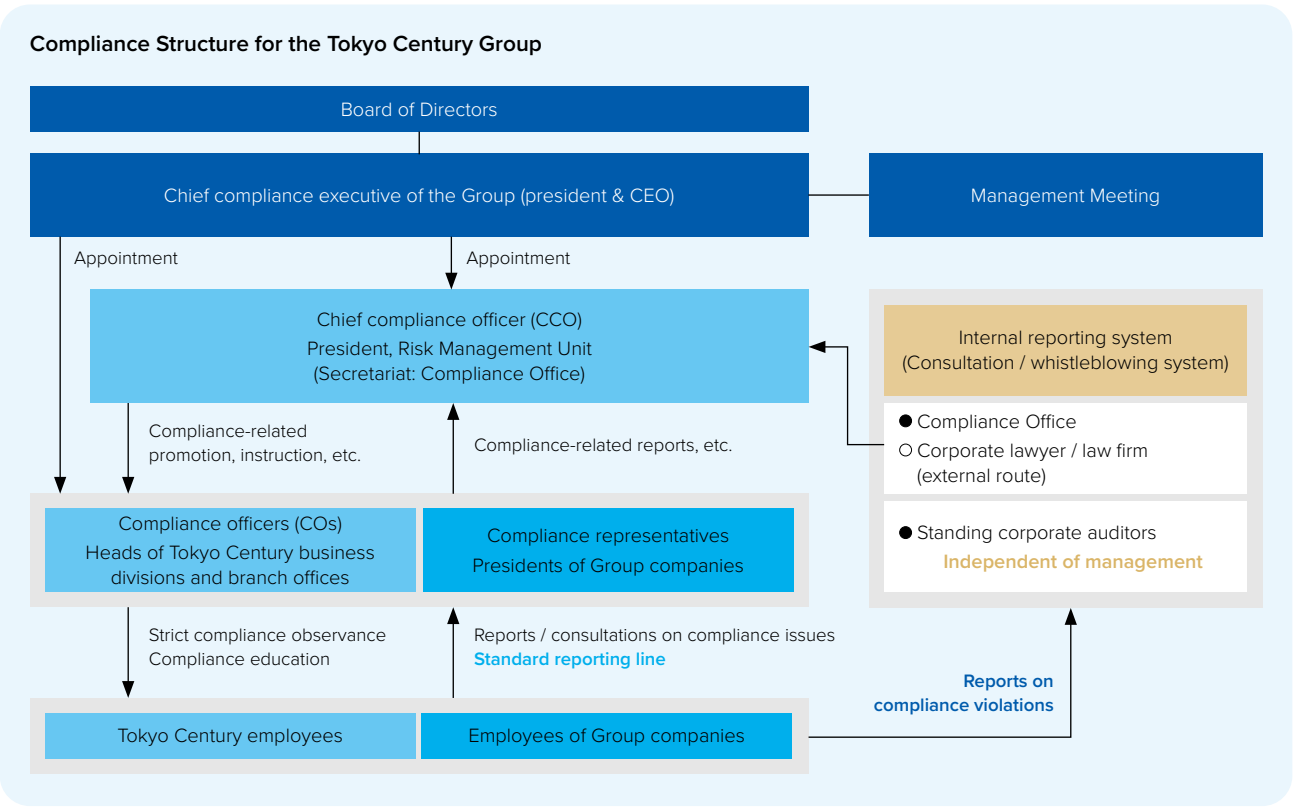


Compliance

➔ Compliance Structure

At the Tokyo Century Group, the Compliance Office promotes compliance measures under the supervision of the chief compliance officer (CCO) appointed by the president & CEO, who is also the chief compliance executive.

The heads of each business division and branch office of the Company, along with the presidents of Group companies, act as compliance officers (COs) with the responsibility of coordinating with the Compliance Office to guarantee compliance with all relevant laws and regulations and ensure that business activities are kept in line with social norms.



➔ Compliance Activities

Compliance activity plans are formulated through discussions by the Management Meeting at the beginning of each fiscal year, and these plans are reported to the Board of Directors. The adequacy of the progress of these plans is reviewed every six months by the Management Meeting and the Board of Directors.

Specific compliance activities include e-learning programs, face-to-face and online training sessions, distribution of compliance-related information, and compliance awareness surveys. We also arrange Groupwide forums for sharing compliance information.

➔ Internal Reporting System

The Tokyo Century Group implements clear and exhaustive whistleblower protection measures in its internal reporting system in accordance with Japan's Whistleblower Protection Act. Persons engaged in the activity of dealing with whistleblowing disclosures, as described in the act, are designated and trained to perform tasks related to the whistleblowing system, and these individuals are obliged to maintain complete confidentiality with regard to information obtained during their duties. We will continue to adhere to the highest standards in operating our internal reporting system based on the belief that it is an important tool for exercising compliance management.

In addition, we are working to expand use of our internal reporting system by broadening the scope of compliance-related consultations that can be processed through all three internal and external consultation venues; providing training on the purpose and meaningfulness of the system as well as procedures for addressing reports; conducting regular awareness surveys regarding the system; and disclosing information pertaining to its implementation status. The ratios of reports and consultations from domestic and overseas Group companies indicate that this system is well entrenched and functioning appropriately.

➔ Human Rights Initiatives

The Tokyo Century Group recognizes that promoting respect for human rights is an important management issue. Based on this recognition, we have established the Human Rights Policy and included provisions related to respect for human rights in our Corporate Code of Conduct and Our Action Guidelines to instill these principles in our business activities. We also expect our stakeholders to exercise respect for human rights.

Human Rights Risk Management

Human rights-related risks are tracked and assessed through the Group's ERM framework, and related information is regularly reported to the Management Meeting and the Board of Directors.

Major Risks, Management Frameworks, and Risk Management

Human Rights Training and Education

To foster a culture of respect for human rights, ongoing training and education are administered targeting all officers and employees on themes including the relationship between businesses and human rights, the Group’s human rights initiatives, and prohibition of harassment.

Grievance Mechanism

The Tokyo Century Group has established contact points for human rights consultations that can accommodate both Japanese- and English-language consultations regarding human rights violations and which are available to Group officers and employees. Remedial frameworks are in place to rectify the damages suffered by victims of any verified violations.

Human Rights Due Diligence

• Tokyo Century Corporation and Group Companies

Human rights due diligence activities are implemented at Tokyo Century Corporation and all of its consolidated subsidiaries in Japan and overseas. Human rights risks closely related to the Group’s businesses are identified, and surveys and interviews are conducted at Group companies to pinpoint issues pertaining to the identified risks in order to pursue ongoing improvements.

• Investees

Tokyo Century assesses human rights risks during the decision-making process for large investments and financing and when monitoring those that have been implemented. These assessments focus on concerns such as the frameworks for addressing human rights risks and any incidences of past violations at the target of investment, human rights risks that may arise because of a given investment or financing, and measures to prevent and mitigate such risks. Decisions to conduct investments or financing are informed by these assessments.

For more information on the following topics, please refer to the Company’s corporate website.

• Compliance Structure of the Tokyo Century Group • Internal Reporting System • Compliance Handbooks • Compliance Education

• Initiatives to Prevent Money Laundering • Initiatives for Preventing Corruption • Policy on Political Funds

<https://www.tokyocentury.co.jp/en/sustainability/esg/governance/compliance.html>

• Human Rights Initiatives

https://www.tokyocentury.co.jp/en/sustainability/esg/social/humanrights.html#anc_humanrights-efforts

Information Security

The Tokyo Century Group views information security as a crucial issue affecting corporate management. The Company has accordingly obtained certification under ISO 27001, the international standard for information security management systems. Under the leadership of the Information Security Committee, we periodically revise regulations and rules regarding information management, conduct regular risk assessments to address information security risks, and carry out information security training for employees and officers.

The TC-CSIRT, a computer security incident response team, has been set up within the IT Unit as a dedicated cybersecurity organization. Under normal circumstances, the TC-CSIRT will take steps to prevent the recurrence of past incidents and the occurrence of new incidents by monitoring security systems, assessing the security of cloud services, and educating officers and employees.

As cyberattacks grow more sophisticated and complex, we endeavor to enhance our response capabilities by sharing information with external partners through membership in the Nippon CSIRT Association and participating in drills for exercising the knowledge acquired in this manner. In fiscal 2023, we joined a cybersecurity framework operated by a major shareholder to practice coordination with regard to assessments and practical drills. Tokyo Century is also taking other steps to strengthen its cybersecurity measures.

Developing a global business means that actions must be taken to protect personal information and strengthen information security measures considering various cultures and regulatory environments. With the aim of reinforcing global security governance, assessments of overseas subsidiaries are performed to identify issues and implement response measures. In addition, we encourage closer collaboration with and among Group companies by strengthening management of outside subcontractors, providing information on information security, and holding regular liaison meetings.

In addition to these efforts, we conduct email drills targeting the Company and domestic and overseas Group companies with emails in Japanese and other languages several times a year. These drills have proved to be an effective training method for improving the information security awareness of officers and employees.

For more information on the following topics, please refer to the Company’s corporate website.

• ISO 27001 Certification • Basic Information Security Policy

<https://www.tokyocentury.co.jp/en/csr/governance/security.html>

Audit System

Point Objective and Independent Audit System

The Audit Unit has been established as an independent organization under the direct control of the president and is tasked with performing internal audits of Tokyo Century and Group companies. Internal audits are aimed at assuring the appropriateness of the Company’s systems, organizations, and rules; whether all business activities comply with relevant laws and regulations and internal rules; and whether operating processes and the risk management system work appropriately and rationally. Based on these audits, improvements are proposed and advice is provided as necessary. As the Group expands its areas of business, risk profiles are becoming more diversified and complex. Accordingly, Tokyo Century aims to conduct internal audits that are effective as part of a risk-based approach. Timely and appropriate audits are also conducted of companies newly consolidated through investment or acquisition. Through such auditing activities, we strive to enhance the risk management capabilities and improve the corporate value of the Company and Group companies. Annual internal audit plans are reported to the Board of Directors after approval by the president (Management Meeting), and the results of the audits are reported to the president (Management Meeting) and to the Board of Directors.

Audit System for Major Group Companies

Major domestic Group companies as well as major overseas Group companies Aviation Capital Group LLC (ACG) and CSI Leasing, Inc., have in place independent audit units that perform audits at their respective companies. Audit plans and results are reported to the Audit Unit of the Company, which provides instruction and support as necessary.

The Audit Unit directly audits subsidiaries that do not have their own auditing functions.

Basic Audit Policies

Reliable Third Line of Defense Supporting Quest for Growth
Furnished by Audit Unit

1. Identification of latent risks to contribute to improved operations and the prevention of misconduct
2. Provision of effective proposals and advice for improvement based on a forward-looking perspective and sensitivity toward change
3. Support for and coordination among Group companies to strengthen the Groupwide audit system

Message from the President of the Audit Unit



Medium-Term Management Plan 2027 calls for Tokyo Century to transform itself and become a corporate group that brings about change in pursuit of ongoing growth. Robust governance and strong risk management are imperative to accomplishing this objective and achieving ongoing growth. I view the Audit Unit as our third line of defense, the last bulwark for governance and risk management. The unit thus has a cornerstone role in supporting the ambitions of the Company. I am therefore committed to offering constructive and accurate improvement proposals and advice to ensure effective risk management.

Akihiko Okada

Deputy President, Director and Executive Officer
President, Audit Unit

The Tokyo Century Group’s Audit System

