

Profit Plan for Fiscal 2025

Q.

Regarding the risk buffer described on page 7 of the IR Presentation material, it is inferred that lower profitability in the Environmental Infrastructure segment is associated with biomass co-firing power generation business described on page 29. If you reassess the value of this asset, how much downside risk will you have?

A.

As stated on page 7, we factor in a risk buffer of ¥32 billion in the fiscal 2025 performance forecast. As for business profitability in the Environmental Infrastructure segment, there is a possibility that the biomass co-firing power generation business could be subject to the impairment process if it runs a deficit for the second consecutive year, according to accounting rules. However, we forecast a profit from this business for this fiscal year, and there are no definitive conditions at present. Please note that the risk buffer includes the potential impact of this business in the Environmental Infrastructure segment as well as other factors such as the impact of U.S. tariff policy.

Progress of Medium-Term Management Plan 2027

Q.

What is the current progress of Medium-Term Management Plan 2027? In the Specialty Financing segment, net income for fiscal 2025 is expected to be ¥34.5 billion, excluding insurance settlement proceeds related to ACG's exposure to Russian airlines. This represents a slight increase from the ¥32.9 billion in fiscal 2024. Which businesses do you consider to be your future growth drivers? Additionally, in the International Business segment, could you tell us if the gain on the sale of the data center business jointly developed with the NTT Group is expected to contribute to earnings?

A.

We believe that progress on our Medium-Term Management Plan 2027 has brought the achievement of our fiscal 2027 targets within sight. However, achieving the medium-term plan is not our ultimate goal, and we manage our business with an eye toward the future beyond. In the Specialty Financing segment, in addition to the growth in core earnings of

the aviation business, gains on sales of aircraft may also contribute to earnings due to the upward trend in aircraft prices resulting partly from Boeing's supply constraints. In the medium to long term, we intend to build and operate a high-quality portfolio while balancing future core earnings and gains on sales. In addition, we are continuously making investments in real estate business, specifically logistics facilities, and in U.S. data centers.

As for the data center business in the International Business segment, nothing has been decided in terms of the outlook for sales and other related matters. We intend to operate the business from the perspectives of flows and stocks, while observing the data center demand and supply and the market situation in the future.

In the Environmental Infrastructure segment, we are making investments aimed at generating revenue in the medium to long term, rather than the short term, since returns temporarily decline immediately after the investment is made due to the J-curve effect.

Q.

Upon assuming the position of President of Tokyo Century, are you considering reviewing the current medium-term plan?

A.

I have a strong desire to achieve the current medium-term plan ahead of schedule, and I will do my utmost to realize it. At the same time, I aim to strategically establish the direction of the business portfolio by the end of this fiscal year. I will also tackle financial issues and human resource development. Furthermore, I intend to consider a roadmap for five and ten years and advance discussions on how to tackle the next phase.

Future Management Strategy and Vision

Q.

For which businesses do you have high growth expectations? What elements are necessary to further enhance their growth?

A.

To develop our company's growth story, we intend to consider new businesses that we have not yet started, in addition to existing businesses. We will look for new business opportunities while focusing on structural changes such as changes in globalization due to tensions between countries, environmental energy, AI and the digital revolution, and global population dynamics.

When considering new business domains, we place importance on whether they are growth markets, highly profitable businesses, and fields where our company's strengths can be

utilized, and where mutual complementarity between our business domains can be established. In particular, we will strategically target areas where banks and trading companies cannot enter under business laws, government regulations, or policies.

As for strategies for each business domain, in the Automobility segment, we will not only strengthen existing businesses but also focus attention on peripheral areas such as vehicle maintenance, automotive data business, and autonomous driving.

In the Specialty Financing segment, the key is to increase asset efficiency in the aviation business. Furthermore, we will focus not only on ACG but also on GA Telesis, which has an advantage in the aircraft engine and parts trade.

In the International Business segment, we will work to discover areas where we can collaborate with the NTT Group, centered on the data center business.

Q.

When exploring new businesses, are you considering large-scale M&A as an option?

A.

We would like you to understand that M&A is not our starting point but we begin by determining our ideal business portfolio and may use M&A as a means of achieving that vision. Our M&A evaluation process focuses on the financial impact as well as the following key factors: (1) consistency with our business strategy, (2) appropriate valuation, and (3) governance standards and cultural compatibility with the target's leadership team.

Diversifying our business portfolio and human resources through M&A will have a positive effect. We will address this with a strong focus on overall optimization.

Q.

Please tell us about your current management challenges and what you would like to tackle specifically.

A.

In order to drive significant growth, we place particular importance on reform in our management. First of all, we will fully analyze our company's strengths, and then we will carefully identify which areas we can contribute to by demonstrating our strengths, and which areas we should scale back. We recognize the challenges concerning asset efficiency, capital efficiency, and profitability, and will steadily address them one by one. I believe that our company's strengths, such as "ability to assess asset value" and "collaboration with partners," can be honed by fostering a strong sense of initiative among all officers and employees. I believe it is necessary to enhance the overall strength of the

organization by preventing individual knowledge and experience from becoming person-dependent.

I have already started some projects since taking office. I would like to refrain from giving detailed explanations at this point, but those projects focus on rebuilding the business portfolio, financial issues, and management infrastructure, human resource development, and corporate culture promotion.

Q.

Please share your views on the challenges concerning the current ROE level (9.0%) and how you intend to improve ROE.

A.

As you have pointed out, I acknowledge that our current ROE is a key challenge and I will focus on the following three areas to improve it. The first is to use ROIC and other indicators to further raise awareness within the company about returns that take into account risk and volatility. The second is to consider the allocation of management resources based on ROIC and other KPIs, rather than the conventional approach based on ROA, in creating an optimal business portfolio. The third is to properly fulfill our accountability to shareholders for the optimal allocation of management resources and measures to improve ROE. I believe that addressing issues responsibly is the most important in order to meet everyone's expectations.

Q.

The policy interest rate in Japan is on an upward trend, while the U.S. policy interest rate has remained high. Could you tell us about any strategies you would like to develop in the future taking account of interest rates?

A.

In response to the rise in domestic interest rates, first of all, we need to pass on the rising financing costs to our lease rates, but we have been able to do this promptly. We are focusing on proposals that add value, rather than just raising lease rates. We are confident that we will be able to overcome the impact of higher interest rates by expanding our business scope beyond leasing to additional services and fee businesses. On the other hand, I feel that it is becoming very difficult to forecast the U.S. policy interest rate. We would like to pay close attention to the impact of tariffs, inflation and consumption trends, and foreign exchange fluctuations, as these could lead to changes in our gains on sales and the assumptions for business operations. Regarding the cost of foreign currency financing, mainly in the U.S. dollar, we are taking hedges as appropriate by switching to fixed-rate financing. We believe that we have implemented effective systems to manage volatility so

that we can focus on our business.

Shareholder Return

Q.

The Company's current dividend payout ratio (around 35%) looks a little low compared to other companies in the same industry. What is your future direction?

A.

Our future capital policy will be based on an optimal balance among surplus capital, which will be funds for investment to fully demonstrate our growth story to the market, capital adequacy as a risk buffer, and delivering enhanced shareholder returns. Some have pointed out that the dividend payout ratio is relatively low in the industry, and we will set it with a strong focus on an appropriate dividend level. Taking into account the balance between them, we believe that a major issue is how to think about our dividend policy, but we will continue our basic policy of "providing stable, long-term returns to shareholders" and our policy of progressive dividends, which in principle will not be reduced.

Q.

What is the dividend policy if the negative impact of the risk buffer is not realized?

A.

At the moment, we are thinking of using it as a growth fund for our aircraft leasing subsidiary ACG, which recorded an impairment loss on its exposure to Russian airlines in fiscal 2022. However, we will make a decision by comprehensively judging various factors in light of the fact that we did not reduce but maintain the dividend when we recorded an extraordinary loss in fiscal 2022.

Specialty Financing

Q.

While ACG accounts for a high percentage of the overall portfolio, I have the impression that profitability is not sufficient. How will you manage this business going forward?

A.

Aircraft leasing is a highly promising business, and I appreciate the management of ACG. However, as the asset size has been increasing, I think there is room for improvement in ROA. We will consider various measures to improve profitability in the future.

Q.

Regarding ACG's exposure to Chinese airlines, what are the risks associated with the U.S.–China trade friction?

A.

As shown in the presentation material disclosed on ACG's website, the exposure to China was 6% as of March 31, 2025 (on a book value basis). Although it is difficult to predict the outcome of the tariff negotiations between the U.S. and China, the recent lease payments have been made and there has been no significant impact. We will closely monitor future developments.

Q.

What is the impact of the U.S. tariff policy on your shipping business?

A.

The shipping business accounts for a relatively small portion of our company's overall portfolio, and we do not anticipate a significant impact at this point. We will take appropriate measures while keeping in mind future risk scenarios.