

Q&A at Q3 FY2025 Earnings Call
Tokyo Century Corporation

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FY2025 Earnings Outlook

Q.

While a significant gain on the sale of U.S. data centers is expected to be recorded in the fourth quarter, the full-year net income forecast remains unchanged at ¥100.0 billion. Could you clarify whether you anticipate potential losses exceeding the ¥32.0 billion risk buffer?

A.

We believe potential losses may exceed the initially set risk buffer of ¥32.0 billion. In light of the shifting external environment for the biomass co-firing power generation business, we are currently evaluating asset recoverability, including estimates of future cash flows. Simultaneously, we are conducting a thorough review of other assets to maintain and enhance our financial soundness.

Q.

Is there a possibility that the losses booked in this fiscal year will have a direct positive impact on future earnings—for example, by reducing depreciation expenses starting from the next fiscal year (FY2026)?

A.

Currently, we do not anticipate any factors that would significantly impact our earnings from the next fiscal year onward. As it depends on whether we continue to hold the asset in the future, we are not yet at a stage where we can present any definite positive effects.

Q3 FY2025 Financial Results

Q.

The year-on-year increase in "Income accumulated in operating segments" (+¥6.0 billion) on page 6 of the IR Presentation has narrowed compared to the second quarter. Could you explain the background?

A.

The primary factor behind the slowdown in the base earnings power in the third quarter was that ACG identified unprofitable aircraft for potential sale, recording impairment losses of approximately \$50 million on specific aircraft expected to be sold at a loss. Although there are quarterly fluctuations due to such one-time factors and the presence or absence of capital gains, we believe that the base earnings power

itself remains at a fully satisfactory level.

Q.

What were the factors behind the year-on-year decrease in funding cost in the third quarter?

A.

While the cost of yen-denominated funding has increased due to rising interest rates, the cost of foreign currency funding has improved. This is primarily due to a decrease in the proportion of high-cost U.S. dollar funding, as ACG utilized the insurance settlement proceeds related to Russia exposure to reduce interest-bearing debt.

Growth Investments

Q.

In your future asset allocation strategy, will investments in focus areas such as data centers and energy storage be managed within the ¥7.0 trillion total asset framework outlined in the current Medium-Term Management Plan? Or is there potential for a shift in capital allocation in the future?

A.

Looking ahead, we intend to implement even stricter prioritization of capital allocation based on risk and return. While we can operate within the scope of our total assets as of the end of December 2025 (approximately ¥7.0 trillion), any new growth investment opportunities will inevitably require us to consider the recycling of assets. In our current business strategy formulation, we are identifying specific areas for expansion versus contraction. We plan to flexibly execute changes in capital allocation at the optimal timing from the next fiscal year onward.

Reform Projects Led by the President

Q.

Regarding the new organizational structure effective April 2026, could you clarify the specific changes and the anticipated benefits?

A.

Our primary objective is to integrate our core competencies—namely, specialized expertise and partnerships—which have previously been dispersed and siloed across various business segments. By establishing a framework centered on business-based units as customer interfaces and product-based units with high-level expertise, we aim to link them organically and further strengthen our core competencies. As one of the benefits, for example, we plan to consolidate our data center and mobility businesses, which were previously fragmented by region or partner, into a single unit. Through this, we intend to stimulate the sharing of expertise across units and evolve into a "group of professionals" capable of responding promptly to diversifying market needs and providing high-value-added solutions.

Q.

With the reform projects scheduled for announcement in May 2026, do you plan to maintain the current Medium-Term Management Plan or introduce a new one under the new organizational structure? Furthermore, will you align your disclosure with the new organization?

A.

Although no final decisions have been made at this time, we are considering the announcement of a new medium-term management plan. We intend to present a consistent story encompassing corporate culture, financial management, business, and human resources strategies, built by backcasting from our 10-year vision. We are also planning to align our disclosure with the new six-unit organizational structure starting in April 2026.

Q.

With the introduction of the new organizational structure, are you considering expanding disclosures regarding capital efficiency, profitability, and other indicators?

A.

We believe the purpose of investor relations activities is to ensure that investors can evaluate our company appropriately. Taking the introduction of the new structure as an opportunity, we intend to prepare for enhanced disclosure on items of high market interest, such as profitability and capital efficiency that factor in risk and return. Based on feedback from analysts and investors, we will proactively improve and expand our disclosures to contribute to an appropriate valuation.

Q.

Could you tell us about the status of discussions regarding business performance for the next fiscal year and beyond, particularly concerning top-line growth?

A.

The future direction being discussed through our reform projects is not a mere extension of our past efforts; rather, it is focused on further steepening our growth trajectory. We are deepening our discussions to raise the baseline for further growth from the next fiscal year onward, while continuing to maintain and strengthen our financial soundness during this current period.

Data Center Business

Q.

Could you provide an update on the current investment track record and the status of the pipeline for the joint projects with the NTT Group and Mitsubishi Estate?

A.

As these are joint projects with our partners, we do not disclose the total investment amounts or specific pipeline status. However, within our Social Infrastructure Unit to be established next fiscal year, we have positioned the data center business as a key strategic area and intend to continue proactively promoting growth in this field.

Q.

Regarding the U.S. data center business with the NTT Group, could you explain the background behind the decision to transfer a portion of your stake at this stage? Also, what is your view on tenant credit risk, especially given concerns about oversupply in the data center market?

A.

We share a common intent with the NTT Group to expand business and enhance value by effectively utilizing third-party capital. This agreement with JICT (Fund Corporation for the Overseas Development of Japan's ICT and Postal Services Inc.) was reached as part of that strategy. We view this as a step forward in our business through the selection of a partner with an extensive investment track record and deep expertise in the data center sector. Regarding tenant credit risk, our primary customers are major hyperscalers with robust financial foundations. Therefore, we currently do not have significant concerns about credit risk.

Grid-Scale Energy Storage Business

Q.

Could you tell us about the current investment track record and the status of the pipeline?

A.

On a power capacity basis, we aim to expand grid-scale energy storage to approximately 600 MW within the next few years. In terms of our investment, we are planning for a scale of approximately ¥100.0 billion.

Q.

Could you explain the specific risks you have identified and how you are addressing them?

A.

We have identified the following three areas as our primary business risks:

1. Regulatory Risk: Potential changes to electricity regulations may prevent us from achieving projected revenues.
2. Supply Chain Risk: Factors such as battery fire incidents, rising raw material costs, and increased maintenance expenses
3. Market Price Volatility Risk: Potential declines in market prices or the narrowing of spreads

Regarding the approximately 500 MW for which investment decisions have been finalized, we have largely secured the grid connections and do not foresee any major issues at present. Furthermore, we are proceeding with our investments based on a business plan that already incorporates potential impacts from regulatory changes.

Others

Q.

In the current environment of labor shortages, rising prices, and increasing interest rates, have you observed any changes in credit trends within the Equipment Leasing segment, particularly regarding small and medium-sized enterprises?

A.

We have seen no significant changes in the status of bad debt occurrences within Equipment Leasing, and the figures remain at a low level. We believe that our credit risk is extremely limited as a result of strategically shifting our target customer base over the past decade.

Q.

Given the current strength of the stock market, has there been any change in your approach to reducing cross-shareholdings as a way to secure funds for growth investments?

A.

The reduction of cross-shareholdings has been our established policy in accordance with the Corporate Governance Code. Therefore, we are no longer at the stage of debating "whether to sell," but rather "when to execute." Utilizing the capital gained from these sales as a source of funding for new growth investments is a natural scenario. We intend to proceed steadily, capturing the right opportunities to improve our capital efficiency.