

Summary of Q&A at Joint Briefing on Joint Business Initiative for ACG
Tokyo Century Corporation

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Presenters:

ITOCHU Corporation

Toshio Okudera, Senior Operating Officer, General Manager, Planning & Administration Department,
Machinery Company

Eiichiro Higashiyama, Executive Officer, Chief Operating Officer, Plant Project, Marine & Aerospace
Division

Yu Takahashi, General Manager, Aerospace Department

Tokyo Century Corporation

Mahoko Hara, Member of the Board, Senior Managing Executive Officer, President of Transport Unit;
Executive Chair, Aviation Capital Group LLC

Tatsuya Hirasaki, Member of the Board, Senior Managing Executive Officer, CFO, CHRO, Co-CSO

1. Questions for ITOCHU Corporation

Q.

We understand that ACG's growth strategy is centered first on scale expansion. At the same time, its high liquidity, as evidenced by its average fleet age of 5.4 years, is also a strength. We assume there is a scenario in which asset efficiency is enhanced by combining new aircraft procurement with sales of used aircraft. Since it is not easy to achieve both scale expansion and a high asset turnover rate at the same time, how do you intend to balance the two? Also, could you explain the expected synergies with adjacent businesses, including the timeline for realizing them?

A.

(Takahashi, ITOCHU Corporation)

The aircraft leasing market is expected to continue expanding, supported by medium-term growth in air passenger traffic. Through growth not only at ACG itself but also through the creation of synergies across our whole value chain, we aim to achieve ROI of over 8% in around 5 years.

Since the 1970s, we have built capabilities that allow us to carry out the full process in-house, from aircraft procurement and lease arrangement to aircraft sales and asset management. In this transaction, we position ACG as an aircraft asset platform, and we intend to expand our sales capabilities by combining ACG's expertise with ITOCHU's global network.

More specifically, by leveraging our group companies such as IC Aero, Killick, and Sirius, we intend to steadily build up these synergies over the next five years.

Q.

In terms of achieving ROI of 8%, should we view the roughly ¥14.0 billion difference between the FY2027 profit target for the aerospace business of ¥30.0 billion and the FY2026 target of ¥16.0 billion as the near-term return for ACG? Also, if you are aiming to become a top five player through scale expansion, I assume funding for M&A and new aircraft procurement will also be required. Is the target of 8% ROI and ¥50.0 billion in profit in around five years based on the assumption that ITOCHU will make additional investments?

A.

(Higashiyama, ITOCHU Corporation)

We are targeting ¥50.0 billion in profit from the aerospace business in around five years. Of that amount, we expect ACG's profit contribution to be more than ¥20.0 billion.

This includes not only ACG itself, but also growth in adjacent businesses through the realization of synergies, as well as profit growth in other related businesses. Accordingly, these figures do not assume additional investments.

Q.

We understand that one of the strengths of ITOCHU Group's aircraft leasing business is its relationships with investors. In the aircraft leasing business, procurement of new aircraft from manufacturers is extremely important. Could you explain ITOCHU's strengths and points of differentiation in new aircraft procurement?

A.

(Takahashi, ITOCHU Corporation)

As you noted, in the aircraft leasing business, one of our strengths is our relationships with investors, which we have built over many years through sales on an aircraft-by-aircraft basis.

We are involved with aircraft companies in various fields, and we believe that, when ACG procures aircraft going forward, ITOCHU can play a certain role and make a contribution.

Q.

Is the ¥50.0 billion profit target based on ordinary profit or net profit? Also, if ACG is expected to contribute more than ¥20.0 billion in profit in around five years, should we understand that ACG's earnings are planned to roughly double? Under that assumption, could you give us a sense of the scale of total assets and number of aircraft?

A.

(Takahashi, ITOCHU Corporation)

We would refrain from commenting on details such as number of aircraft, but the profit target is set on a net profit basis.

Q.

So, at the ACG standalone level, are you aiming for after-tax profit of more than ¥40.0 billion, which would be more than double the current level?

A.

(Higashiyama, ITOCHU Corporation)

Yes, we intend to grow ACG to that level of profit.

Q.

Regarding the issuance of the class shares this time, could you explain why this was not structured as common shares? Also, what kind of actions do you have in mind after September 2031, when Tokyo Century becomes able to acquire them?

A.

(Okudera, ITOCHU Corporation)

As stated at the end of the press release on the ACG investment that we disclosed today, Tokyo Century and ITOCHU have built a business relationship over a very long period. Through collaboration across a wide range of fields, we have now been able to realize a joint investment in a large-scale transaction such as this one.

We view the ¥10.0 billion in bond-type class shares as a strategic initiative that, in line with ACG's capital restructuring, will strengthen Tokyo Century's equity capital and financial base, while also further reinforcing our collaborative relationship from a capital perspective.

Accordingly, we position this transaction not as a short-term arrangement, but as one that is intended to build a long-term relationship.

2. Questions for Tokyo Century Corporation

Q.

With ITOCHU joining as a partner, an increase in leverage is anticipated through expanded debt capacity, along with potential further capital injections into ACG or utilization of external capital. What methods are envisioned to expand ACG's scale toward becoming a top-five global player?

A.

(Hara, Tokyo Century Corporation)

To expand ACG's scale, we take an agile approach to capturing both organic and inorganic growth opportunities, including M&As. Organically, while monitoring market dynamics, we will actively expand ACG's direct manufacturer orderbook, which represents its core strength, whenever favorable terms and attractive opportunities arise. Inorganically, when opportunities emerge for purchasing existing portfolios in the secondary market or acquiring small- to mid-sized lessors, we will evaluate the viability of each investment in close consultation with ITOCHU.

In today's aviation market, airlines and aircraft manufacturers increasingly favor lessors capable of handling large-scale transactions. We expect our collaboration with ITOCHU to enhance our ability to capture these market-driven growth opportunities.

Q.

Tokyo Century's equity capital will expand through gains on the divestment from this transaction (approx. ¥30.0 billion on a net income basis) alongside hybrid capital financing via hybrid bonds and bond-type class shares (approx. ¥30.0 billion). Could you provide a specific outlook on future profit growth and ROE enhancement utilizing these funds?

A.

(Hirasaki, Tokyo Century Corporation)

The estimated impact of this transaction on our FY2026 earnings (approx. ¥30.0 billion) is not finalized at this point as there are multiple variable factors, such as the closing timing, foreign exchange fluctuations, and the progress of regulatory approvals under competition laws. We will disclose the impact to our stakeholders at an appropriate time.

We implemented hybrid capital financing primarily for credit rating considerations, in anticipation of future growth investments following ACG's transition to an equity-method affiliate. The cash proceeds obtained from this transaction and the hybrid capital financing will be reinvested in "Growth and Strategic Businesses," as outlined in our Medium-Term Management Plan 2030.

This joint business initiative for ACG represents the first phase of our portfolio transformation under the medium-term plan. In the next phase, we intend to expand our "Growth and Strategic Businesses" to approximately ¥3.5 trillion on a segment asset basis through growth investments. By accelerating investments in our robust pipeline, such as data centers and MRO, we will drive a portfolio shift toward high-profitability businesses, strongly delivering medium- to long-term profit growth and ROE enhancement. We believe we have made an excellent start toward achieving our Medium-Term Management Plan 2030.

Q.

What improvements in ACG's financing capabilities (expanded debt capacity and lower financing costs) are expected following ITOCHU's participation? Additionally, how will Tokyo Century's perspective on capital allocation (risk exposure) for the aircraft leasing business evolve with ACG becoming an equity-method affiliate?

A.

Impact on Financing Capabilities

(Hara, Tokyo Century Corporation)

While ACG's future credit ratings will ultimately be determined by rating agencies, we expect that partnering with ITOCHU, given its solid financial foundation, will yield positive benefits such as expanded debt capacity and reduced financing costs. These financial advantages will serve as key drivers in enhancing ACG's competitiveness.

Perspective on Capital Allocation / Risk Exposure

(Hirasaki, Tokyo Century Corporation)

With our equity stake reducing to 50%, the capital allocation assigned to ACG (or risk exposure) under our capital utilization framework is directly halved. While we anticipate positive developments from ITOCHU's participation, such as financial stabilization and enhanced creditworthiness, we are not currently considering lowering our capital allocation thresholds or underestimating our risk exposure solely based on these factors.

Q.

Will the cash proceeds from this transaction (approx. ¥300.0 billion) be allocated toward additional shareholder returns? What is the intended use of these recovered funds?

A.

(Hirasaki, Tokyo Century Corporation)

While a portion of the funds recovered from this transaction will be used to repay borrowings, the vast majority will be allocated to future growth investments. Our shareholder returns remain firmly guided by our existing policy of a "dividend payout ratio of 35% or higher" and "progressive dividends." We intend to reinvest the recovered funds into growth businesses with high capital efficiency, thereby delivering shareholder returns through sustainable medium-to-long-term profit growth.

Q.

Could you share Tokyo Century's long-term quantitative targets for the aviation business? Beyond ACG, how are potential synergies and specific collaborations with ITOCHU envisioned across the Group, including existing aviation businesses like GA Telesis?

A.

(Hara, Tokyo Century Corporation)

We have set a FY2030 net income target of approximately ¥40.0 billion for the aviation business, and approximately ¥47.0 billion for the entire Transport segment, which includes shipping. To achieve these targets, we plan to fully leverage the aviation value chain built over the past decade and generate multifaceted synergies with ITOCHU and ACG. Specifically, we intend to significantly expand earning opportunities in aviation businesses across the Group. This includes promoting collaboration centered on GA Telesis's strengths, such as MRO, engine leasing, and used parts trading, as well as utilizing its loan funds. We also intend to expand investment products, including JOLCO.

Q.

Given the competitive landscape among top industry players, can ACG's scale be expanded solely through organic growth to increase its earnings contribution? What specific growth paths are envisioned, including inorganic opportunities?

A.

(Hara, Tokyo Century Corporation)

Where favorable conditions arise, we will selectively capture inorganic market opportunities, such as M&As of small- to medium-sized lessors and purchases in the secondary market resulting from portfolio rebalancing by major lessors. Simultaneously, we plan to steadily accumulate segment assets at an annual pace of approximately US\$1.0 billion through ACG's direct manufacturer orderbook, which is its core strength. By continuing this scale expansion, we believe our target earnings can be fully achieved through organic growth alone.

Q.

With the transition to a 50:50 joint venture with ITOCHU, what will be the composition of ACG's Board of Directors, as well as its executive leadership and governance structure?

A.

(Hara, Tokyo Century Corporation)

While the specific executive composition has not been finalized at this stage, management will be conducted on an equal footing. All key governance matters, including the composition of the Board of Directors and executive committees, will be discussed and determined jointly by both companies. Building on our longstanding relationship of trust with ITOCHU, we will pursue smooth and balanced governance without compromising the agility of decision-making, which is extremely critical in the aviation business.

Q.

What is the rationale for issuing class shares rather than common shares? What actions are anticipated from September 2031 onwards when the acquisition rights become exercisable by Tokyo Century?

A.

(Hirasaki, Tokyo Century Corporation)

In reviewing our capital and financing policies in connection with ACG's transition to an equity-method affiliate, a certain level of hybrid capital was required. This led to the issuance of these class shares following consultations with our joint partner, ITOCHU. Common shares were not issued to avoid diluting the equity of existing shareholders. We determined that utilizing subordinated capital, such as hybrid bonds and bond-type class shares, was the most suitable choice for our shareholders.

While the decision on actions from 2031 onwards ultimately rests with the subscriber, ITOCHU, Tokyo Century intends to respond appropriately in light of the circumstances at that time, while maintaining and reinforcing our long-term, robust collaborative framework with ITOCHU.