

Sojitz IR Day
Automotive Division
Business Presentation Meeting (January 13, 2017)
Condensed Transcript of Q&A Session

Q. What are the Automotive Division's policies for allocating funds for future investment?

A. Investments and M&A activities in dealership businesses are a cornerstone of our strategies under the current medium-term management plan, and a large portion of outlays will be directed to these activities accordingly. In addition, we will appropriately determine and allocate the necessary amount of funds to the upkeep and growth of existing businesses. As for ambitious projects, which are a central part of our third key strategy, we will examine candidate projects on an individual basis, taking their scale into account when making investment decisions.

Q. Could you please provide more details on your joint-initiatives with Mitsubishi Motors Corporation in the Philippines? Specifically, do you foresee any changes happening in the future in relation to the investments made in Mitsubishi Motors by NISSAN MOTOR CO., LTD.?

A. It can be expected that various collaborative ventures will be advanced going forward. However, concrete measures have yet to be solidified, and we do not expect any significant impact on operations in the Philippines at this moment in time. Looking ahead, Sojitz will carefully monitor the operating environment as it fulfills its role within this alliance, all while forging ahead with initiatives for achieving ongoing growth.

Q. It would seem that operations in Russia have continued to struggle, due in part to political issues. Are you currently seeing any improvements on this front, or do you anticipate that recovery will occur in the year ending March 31, 2018?

A. Russia's public transportation systems are still underdeveloped, meaning that cars are not only the main form of transportation, in both major and rural cities, but that they are an indispensable part of life. Automobile sales dropped by 50% following the Russian ruble collapse. However, we still believe that the Russian market has sufficient growth potential and latent demand. Sales should recover together with the economy. Furthermore, we have recently been receiving somewhat favorable reports about sales from operations in Russia,

and we therefore anticipate that these operations will recover and continue to grow as an earnings pillar in the future.

Q. Could you please explain the auto financing business in the Philippines a little more? In other regions, financing operations have to compete with local banks, and they tend to incur losses from delinquent debt when the economy takes a dip. As Sojitz has partnered with a local bank, is it safe to assume that you already possess the necessary risk management knowledge? Also, could you offer more details about the auto financing market in the Philippines?

A. The auto financing market in the Philippines is an emerging market. Toyota just began offering captive finance loans a few years ago. Sojitz, with its captive finance loans for Mitsubishi automobiles, is only the second company to enter this market. At the same time, loan usage is incredibly common in the Philippines, and we are thus anticipating competition with loans from local banks. We intend to combat this competition by leveraging the strengths of captive finance loans and coordinating efforts to grow our loan asset portfolio with sales promotion measures. In terms of risk management, we are partnered with BDO Unibank, Inc., which is the Philippines' largest commercial bank, boasting an unrivaled track record when it comes to private loans. Through its operations, this company has accumulated substantial insight into managing risks in this market, insight that will benefit the Company in addressing risks. Meanwhile, JACCS Co., Ltd., another partner, will be a powerful ally in managing credit risks with its cutting-edge credit management techniques and experience in accelerating credit examination processes. Working together with these highly capable partners, we are committed to making this business a success.

Q. I understand that the Automotive Division intends to continue concentrating investments in its dealership businesses. How much potential do you think there is to expand these operations so that they may be developed in a growth pillar over the next several years?

A. Looking at the United States, there are more than 1,000 dealership locations for premium brands alone. This figure is in the tens of thousands when accounting for all brands. Accordingly, there are countless opportunities for M&A activities and thus significant potential to grow. We have developed the operations of Weatherford Motors Inc. in the United States for 29 years, over which we have not posted a single loss, not even during the 2008 global financial crisis or any crisis preceding that. We are therefore confident that our strategy of focusing primarily on selling premium brands to high-income households is effective.

Q. What was the reasoning behind your decision to concentrate investment on dealership businesses?

A. In addition to large number of opportunities for M&A activities, we also judged that dealership businesses represented a field in which we could easily exercise our competitive edge. Moreover, the U.S. market is highly divided, with the combined share of the top three dealerships falling just short of 10%. There are numerous cases of dealerships being owned by single individuals, which represent opportunities for M&A activities. Furthermore, it is often possible for us to increase the value of such dealerships by injecting our operational know-how into them after acquisition. For this perspective as well, we believe that we can differentiate our investment activities in dealership businesses by calling upon our wealth of experience.

Q. How many dealerships are you currently examining as possible acquisition candidates?

A. The number of dealership acquisition candidates we are examining is currently in the double digits. With this large number of options, we are even more committed to rigorously evaluating each individual candidate, carefully judging them in comparison to Sojitz's investment criteria. In this manner, we will make investments based on a discerning eye as we seek to acquire dealerships that match the Company's standards.

Q. What has been the most important factor when attempting to raise the value of dealerships post-acquisition?

A. In attempting to improve the core earnings coverage ratio of dealerships, one of the most important factors to consider is sources of revenue other than new car sales. These sources can include services, maintenance, parts, auto financing, and used car sales. There is not really any sort of special technique that is used to improve operations with this regard. Rather, improvements hinge on a dealership's capacity to perform the basic tasks of their business with a high level of competency. We have decades of experience in the United States. This experience has developed our ability to effectively manage crucial business processes into one of our strengths.

Q. It was mentioned that a medium-risk, medium-return approach will be adopted in Asian dealership operations. What was the rationale behind choosing this different policy toward

risk exposure?

A. Premium brand dealership operations in developed countries are a low-risk, low-return business. Even when conducting M&A activities, sudden spikes in earnings cannot be expected. We have thus made it our strategy in these operations to target stable and reliable profit growth. In Asian and emerging countries, however, the motorization of society is still incomplete, and we therefore anticipate that the number of cars in these countries will increase going forward. In the midst of this trend, we aim to grow earnings by handling new cars and also by incorporating into our business the value improvement activities we conduct in the United States. Compared to other markets, Asia could be said to be middle risk. However, as we can anticipate growth in this market, it is also middle return. We plan to build our asset portfolio in this market in accordance with this view.

Q. It would seem as though there have not been many cases of companies expanding into new locations as distributors in recent years, and this appears to be true for Sojitz as well as for other trading companies. Is there any chance that distributor businesses will increase in the future?

A. In regard to distributor businesses, one of the reasons why we made the strengthening and refinement of existing businesses a pillar of strategies is that the number of opportunities to expand into new regions is limited. Nearly all automobile manufacturers already have their own global networks. For this reason, the only opportunities to enter new regions are when a manufacturer's current distributor is not able to appropriately fulfill their function or generate sufficient sales, prompting the manufacturer to search for new distributor. Should such a case arise, Sojitz can leverage its past track record to attempt to seize hold of the opportunity. In this manner, it is difficult to proactively increase assets in distributor businesses as we are doing in dealership businesses. It is as not as though there are no distributor acquisition candidates that we are examining at the moment. However, even if there were no such candidates, it would not change the fact that distributor businesses are an important area to be considered when refining existing businesses.

Q. Dealership business growth in the year ending March 31, 2017, seems to have accelerated year on year. What are the factors contributing to this growth and what type of growth should we expect in the future?

A. Growth in dealership businesses during the year ending March 31, 2017, is being driven by

contributions from dealerships acquired in 2016 as well as value improvements to existing dealerships. Looking ahead, we plan to expand these operations by combining the revenue contributions from new investments with the growth of acquired dealerships that have undergone value improvements.