

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

Q. What sort of timeframe are you envisioning for the realization of the projected asset portfolio described on the final slide of the presentation material? For example, when do you plan to enhance Russian coal trading operations and conduct asset replacement?

A. The timeframes differ for each of our three business models—namely, trading, upstream resource interests, and businesses—In regard to expanding trading, we will target a substantial increase in trading volumes over the next one or two years, or maybe the next two or three years. In upstream resource interests, it will take between four and six years to develop a green iron ore project, for example. A small or medium-sized coal project, meanwhile, could be developed in as little as two years if all we need to do is procure materials and acquire permits. As for businesses, we hope to quickly get on the growth track, but given the business investments to be conducted after commencing trading, we are looking at a timeline of two-to-three years.

Q. How does the Metals & Coal Division plan to allocate management resources in the future? If you aim to grow trading profits to represent one-third of the division's total profits, it can be expected that you will need to acquire a fair amount of assets. Would this not limit the amount of investment that can be conducted in new businesses?

A. We do not intend to increase total assets. If trades increase, this will, of course, entail more assets. We also plan to expand business assets. Conversely, assets associated with upstream resource interests will likely decrease going forward as we liquidate those assets that no longer function or have lost their significance.

Q. What type of contracts do you form in the coal business? I would like to hear whatever details you can offer.

A. The pricing methods differ for coking coal and thermal coal. Coking coal is imported to Japan on quarterly contracts. Prices for shipments to other countries are often decided for each individual shipment, even if the total contract volume has already been determined. Thermal coal, meanwhile, is still sometimes imported to Japan on yearly contracts, although some entail measuring prices in April while others use prices from October. The prices of yearly

contracts can also vary based on the reference dates of each individual contract. For shipments to countries other than Japan, contracts using spot prices are becoming more common and contracts with index-linked prices are also increasing.

Q. Alumina operations have posted ongoing losses in the past, but it would seem that performance has improved significantly as a result of cost reductions. Would it be possible to reduce costs further?

A. We have made significant progress in cost reductions. We employed a consultant in 2016, and additional cost reduction measures are currently being examined, including the potential for using the Internet of Things or artificial intelligence. We therefore do not anticipate that losses will continue on into the future.

Q. What specific measures are being implemented with regard to revising the division's supply chain?

A. One example can be seen with the carbon materials we are currently handling. As an extension of these operations, we are examining the possibility of not only supplying these materials for use in electric vehicle batteries, but also taking part in the next step on the supply chain, by which I mean processing. For iron ore, meanwhile, the short supply chain from excavation to sales leaves little room for increased participation. Elsewhere, it should be possible to find new ways to be involved in products with longer supply chains.

Q. I suspect that increases to Russian coal trading volumes will make the largest contributions to the expansion of trading in terms of both quantity and monetary amounts. Is this correct?

A. Coal is the most obvious target, but Sojitz is also committed to expanding trading for other products in which it specializes. For example, it is possible that we will see trading increases for high-grade iron ore from South America. Around 60% of iron ore imported into Japan is produced in Australia. However, individual shipments of Australian ore can degrade greatly. This situation creates demand for the high-grade iron that is an area of strength for the Company. As for rare metals, we do not anticipate growth in trading volumes of niobium because we already supply almost all the niobium on the market. There are, however, opportunities for us to expand trading of chromium and nickel as we are investing in production projects for these resources in South Africa and the Philippines.

Q. It was mentioned that Russian coal production volumes will increase over the next two-to-three years. Will this increase be for coking coal or for thermal coal? Also, to what degree will this increase contribute to higher earnings?

A. Our Russian coal operations produce thermal coal that is sold more to South Korea, China, and India than to Japan. Current annual Russian coal trading volumes are around 3 million tons, but we hope to raise this figure to between 5 and 6 million tons over the next two-to-three years. At the moment, our Russian coal operations are not generating significantly large earnings. However, if we focus on finding companies that lack their own networks, as opposed to large resource companies, we should be able to realize substantial levels of profitability by providing our functions to these companies and growing together with them.