

**Condensed Transcript of Q&A Session Regarding Results Briefing  
for the Six-Month Period Ended September 30, 2018  
(November 5, 2018)**

**First Questioner**

Q. I understand that Sojitz chose not to revise its dividend forecast in light of the unclear market trends. However, should earnings per share reach the revised forecast level of ¥56, am I correct to assume that dividends will be raised above the forecast level?

A. We expect exceptionally unfavorable market conditions during the second half of the fiscal year. Specifically, we project slowdown in the Chinese economy, and it is therefore difficult to formulate a projection for commodity prices. We have accounted for the higher earnings achieved in the six-month period ended September 30, 2018, in our forecasts, but there has been no change to our initial forecast for the second-half thermal coal price of U.S.\$85 per metric ton. Meanwhile, the outlook for transaction volumes for Australian coal is very opaque given the restrictions on railway transportation. When considering this situation, we are unable to formulate an accurate projection for the extent to which performance will climb above forecasts in the second half of the fiscal year. For this reason, we would like to wait to talk about dividends until the outlook becomes a little clearer.

Q. The forecast for profit for the year (attributable to owners of the Company) in the Metals & Mineral Resources Division has been raised by ¥8.0 billion. What specific factors are accounted for in the amount of ¥8.0 billion? I suspect that the strong performance for coal and needle coke in the six-month period ended September 30, 2018, was a factor. Could you please offer some details on the commodity price assumptions and production volume forecasts for the second half of the fiscal year and on the current status of price hedging?

A. Our full-year forecast for the thermal coal sales volume in the year ending March 31, 2019, is 6 million tons. As of September 30, 2018, we had sold roughly half of that volume, as planned. Prices have already been set for certain transactions slated to take place in the third and fourth quarters. Those transactions for which prices have not yet been set equate to around 30% of our full-year sales volume forecast. For these transactions, we are applying the initially forecast prices for thermal coal, specifically U.S.\$85 per metric ton in the third quarter and U.S.\$80 per metric ton in the fourth quarter. The decision to raise the forecast for profit for the year in the Metals & Mineral Resources Division to ¥28.5 billion was prefaced on our achieving the initial sales volume forecast. This decision was made despite the unclear outlook for sales volumes associated with the minor transportation issues in Australia. In this manner, our outlook for the year ending March 31, 2019, includes a bit of uncertainty with regard to the amount of profits to be generated from coal. This uncertainty is associated with the potential for higher sales prices or lower-than anticipated to sales volumes and the extent to which these two factors will offset one another.

### Second Questioner

Q. In the Chemicals Division, the price for the methanol handled by PT. Kaltim Methanol Industri has been consistently high. How did performance in this division compare to forecasts in the six-month period ended September 30, 2018? Also, I understand that the full-year forecasts for performance in this division remain unchanged. Does this mean that the higher price of methanol will not buoy performance?

A. In the six-month period ended September 30, 2018, performance exceeded our initial forecasts thanks to the favorable price of methanol. Conversely, a fire occurred at a factory of a chemical product company in the United States, and our production volumes were cut in half for around a month or two as a result. Taking into account this detractor, we have chosen not to revise the full-year forecasts for the Chemicals Division.

Q. Sojitz has issued a news release detailing a strategic business alliance with The Pan Group Joint Stock Company of Vietnam. What is the aim of this alliance?

A. PAN is a devoting effort to the agricultural field in Vietnam. Sojitz, meanwhile, operates a fertilizer business in Vietnam. Through this strategic alliance, we will work together with PAN to contribute to the modernization of Vietnam's agricultural industry and to further develop our operations in this field.

### Third Questioner

Q. It was stated that earnings contributions from investments and loans will come into full-swing during the second half of the fiscal year, amounting to approximately ¥2.0 billion. Could you please provide a breakdown of this amount and explain the likelihood of these contributions being realized? Also, I believe that plans for investments and loans in the year ending March 31, 2020, are a point of interest given the opaque macroeconomic outlook. What are your thoughts regarding new investments and loans in the years ending March 31, 2019 and 2020?

A. Among the ¥48.0 billion worth of investments and loans conducted in the six-month period ended September 30, 2018, the Subaru automotive dealership business, Saigon Paper Corporation, and the independent power producer projects are all brownfield investments. There is a possibility that earnings contributions from these projects in the year ending March 31, 2019, may be slightly lower than the projected ¥2.0 billion. However, it is unlikely that we will only realize half of this amount. The M&A Management Office began operating in the year ending March 31, 2019. This office plays a central role in fundamental post-merger integration activities and in integration measures aimed at increasing the value of acquisitions, working together with controller offices to support acquisitions. As such, the M&A Management Office is spearheading efforts to ensure that investments and loans produce earnings contributions in line with our initial business plan. While changes in the operating environment may necessitate changes in our plans, we are firmly committed to accomplishing the initial targets set forth for key performance

indicators in our business plan.

Q. There were major changes in the value of the currencies of emerging countries and in other conditions during the second quarter. How is the Sojitz's business being impacted by, for example, the trade friction between the United States and China and the depreciation of the currencies of emerging countries? In addition, what risks do you think will need to be considered going forward?

A. There have been no tangible impacts thus far. If the trade friction between the United States and China continues, however, it is likely that substantial slowdown will be seen in the Chinese economy, a development that will no doubt impact market conditions. Such a trend could be a threat in the second half of the current fiscal year and in the year ending March 31, 2020. The areas that will be most impacted by trade friction between the United States and China will include chemical products, synthetic resins, bearings, mounting equipment for producing semiconductor printed wiring boards, and industrial machinery. However, the only transactions that will be directly impacted by the increased tariffs in these two countries are exports of synthetic resins from China to the United States, which amount to just U.S.\$1 million a year. The vast majority of transactions in China are **renminbi-denominated domestic transactions**. The small portion of transactions entailing the sale of imported items in China may be affected by the depreciation of the renminbi. However, such transactions are generally for high-demand items or items for which there is no substitute. Accordingly, we do not expect that our operations will be significantly impacted by renminbi depreciation. Conversely, the inability to import goods and commodities from the United States will force the users of these articles to search for alternative sources. For this reason, we see the trade friction as presenting both risks and opportunities, as was explained at the results briefing for the three-month period ended June 30, 2018. From this perspective, we anticipate that the opportunities arising from the trade friction between the United States and China, political issues, and other circumstances will have the effect of counterbalancing the associated risks. As for the depreciation of the currencies of emerging countries, this trend is not causing any significant issues at the moment. There is, however, a need to more carefully monitor credit risks and the issues that could occur with regard to inventories and foreign exchange positions.

#### **Fourth Questioner**

Q. It is my understanding that, at the time of the acquisition of the Gregory Crinum coking coal mine, the necessary permits had not been received from the Australian government. What is the status of these permits? Also, when do you expect this project to begin contributing to earnings and what scale of contributions do you envision?

A. Some of the requirements on which the sales contract for the Gregory Crinum coking coal mine project announced in June 2018 is conditional remain unfulfilled. We anticipate that these requirements will be fulfilled in the second half of the fiscal year, after which the payment will be completed. It was initially estimated that

procuring the equipment necessary to operate the mine would take around a year. However, smooth progress is being made on this front, and we now expect that we will be able to begin mining as early as April 2019. We plan to ship 2 million tons of coal in the year ending March 31, 2020.

- Q. It was mentioned that sales volumes and earnings are going down in fertilizer businesses in Thailand. Is this trend something that we should be concerned about in the year ending March 31, 2020? Or, did profit margins in these businesses just suffer a temporary decline that may reverse itself? Could you please explain this situation along with the reasons for the decrease in sales volumes in these businesses?
- A. Consumption of fertilizer is down as farmers in Thailand find themselves lacking on-hand funds. We are currently investigating whether it was the elimination of government subsidies that resulted in the decline in the cash income of farmers. However, we have also received information that other low-priced, import fertilizers such as single-fertilizer have been placed on the market. There is thus concern that these import products could be changing the landscape of Thailand's fertilizer market. We are in the process of determining whether or not these trends will continue on into the year ending March 31, 2020, and we hope to be able to estimate the impact of these trends by December 2018. As of this results briefing, the growth strategies of Thai Central Chemical Public Limited call for the expansion of the sales venues being developed in Myanmar. The possibility of the future construction of a factory is also being considered. Furthermore, there is an, albeit small, difference between the timings at which fertilizers are used in Thailand and Myanmar, meaning that the conclusion of Thailand's high-demand period is around the start of Myanmar's high-demand period. For this reason, growing sales in Myanmar is a pressing task.

#### **Fifth Questioner**

- Q. I would like to hear about Sojitz's progress in new investment and loans and its policies for investing in the caution-warranting macroeconomic environment projected for the second half of the fiscal year and beyond. Specifically, what are some points of focus and what sort of timelines are being envisioned?
- A. In the year ending March 31, 2019, we intend to conduct around ¥100.0 billion worth of new investments and loans. Of this amount, ¥48.0 billion was performed in the six-month period ended September 30, 2018. This amount may seem low in comparison to the full-year target of ¥100.0 billion. We are not worrying for this amount because this progress of the expected amount of ¥100.0 billion is merely due to delays in the actual payments for investments and loans that have already been decided. Whether or not we will adopt a similar pace in the year ending March 31, 2020, and beyond is something that will be considered carefully based on economic trends going forward.
- Q. Other companies have been boasting impressive performance in their automobile operations in Russia. Sojitz, meanwhile, does not seem to be experiencing

performance of the same magnitude. Could you please explain the trends in sales of automobiles in emerging countries while also touching on this situation?

- A. Performance pertaining to the automobiles of Subaru Corporation in Russia is down. As we have acquired dealership operations in this country, Sojitz generates revenue from both distribution and dealerships. For this reason, performance has not declined significantly, but the slowdown cannot be denied. Whether or not this situation will continue in the year ending March 31, 2020, and beyond is dependent on whether or not the United States imposes stricter sanctions on Russia. Nonetheless, Subaru sees Russia as a target market, and we therefore intend to maintain our focus on this market. As for our overall automobile field strategy, we sold MMPC Auto Financial Services Corp. in the period under review, and we are thus examining other approaches for developing operations in the Philippines. We therefore do not anticipate any significant drops in earnings during the period of Medium-Term Management Plan 2020.

#### **Sixth Questioner**

- Q. In the Automotive Division, asset replacement has taken place and there was mention of an automotive parts quality inspection business and of connected cars in Asia. To paint a picture of the contributions to overall higher return on investment from asset replacement in Automotive Division, **could you please explain the details of the expansion of downstream businesses?**

- A. In the Automotive Division, we are, of course, considering future asset replacement and pursuing higher return on investment. As for expanding downstream businesses, we are still in the dealership business in the United States, and we intend to grow our operations in this area going forward. We are also developing operations in Japan, and it is our strategy to expand these and other downstream businesses. In other areas, we looking to take part in next-generation automotive businesses, such as the joint connected car platform investment and development project we are advancing together with GMO Cloud K.K.

- Q. It was stated that Sojitz would utilize its niobium insight in the next-generation automobile field. How are interests for conventional steel additive niobium and the new next-generation battery material niobium positioned within Sojitz's operations? Also, what frameworks are in place to enable Sojitz to exercise its strengths in this field and why did the Company decide to step up its operations in this field?

- A. Development of anode materials using niobium is currently underway. Tests have shown that the use of niobium in anode materials can contribute to substantially shorter battery charge times. Sojitz aims to take part in this development through funding support and other means and to thereby expand sales channels for niobium.

#### **Seventh Questioner**

- Q. What are your projections for earnings contributions in the year ending March 31,

2020, from investments and loans that have already been conducted?

- A. In the year ending March 31, 2021, we anticipate approximately ¥12.0 billion in earnings contributions from investments and loans conducted under Medium-Term Management Plan 2017. We also project earnings contributions of around ¥10.0 billion from investments and loans that took place during the period of Medium-Term Management Plan 2020. These figures were put forth for earnings contributions in the final year of Medium-Term Management Plan 2020 when the plan was announced. Smooth progress is being made toward realizing these contributions. In the final year of Medium-Term Management Plan 2017, earnings contributions from investments and loans amounted to ¥8.0 billion. If the impacts of one-time, development-related profits is excluded, earnings contributions will amount to ¥6.0 billion in the year ending March 31, 2019. Meanwhile, we look forward to contributions of between ¥10.0 billion and ¥12.0 billion in the year ending March 31, 2020, to be realized from thermal power projects in the United States, among others. Contributions from investments and loans conducted under Medium-Term Management Plan 2020 in the year ending March 31, 2019, will primarily arise during the second half of the fiscal year and are projected to come to about ¥2.0 billion. These investments and loans are expected to contribute about ¥4.0 billion in the year ending March 31, 2020.
- Q. I understand that sales in the Energy & Social Infrastructure Division tend to be concentrated in the second half of fiscal years. How, then, should we look at the incredibly favorable performance seen in this division during the six-month period end September 30, 2018?
- A. We recognize the tendency for sales in the Energy & Social Infrastructure Division to be concentrated in the second half of fiscal years. In the six-month period ended September 30, 2018, meanwhile, we saw the commencement of thermal power projects in the United States and Indonesia and renewable energy projects in Chile and Mexico, and progress in these and other investments and loans has been smooth. Over the long-term, we expect to steadily accumulate assets through initiatives such as tying LNG terminal operations in Asia to power generation projects.