

**Condensed Transcript of O&A Session Regarding Results Briefing  
for the Three-Month Period Ended June 30, 2019 (August 1, 2019)**

**First Questioner**

Q. Could you please elaborate on the reasons why profit for the period (attributable to owners of the Company) in the Metals & Mineral Resources Division decreased by ¥1.1 billion. Profit at Metal One Corporation was up ¥0.8 billion, but, when considering the ¥1.8 billion gain on business reorganization, it could be said that profit was actually down at this company. I suspect that performance in this division was influenced by the decline in profit from coal being limited to ¥0.5 billion, despite the price of coal dropping to U.S.\$25 per metric tons, and that the performance of needle coke could be also a factor. What specific factors affected profit for the period in this division?

A. Profit from coal operations only declined by around ¥0.4 billion because we were able to compensate for fall in coal price with higher sales volumes and cost reductions. There also has been no particular change in coal trades. Meanwhile, profit from ferroalloys, such as aluminum, copper, and nickel, was down ¥1.2 billion.

As for industrial minerals, an area in which electrodes and needle coke are Sojitz's mainstay offerings, profit was down ¥0.3 billion, largely as a result of lower sales volumes. As electrode manufacturers have been bolstering their production capacity since the end of the previous fiscal year, there came to be a supply glut for electrodes, with even electric furnace manufacturers amassing electrode stockpiles. Accordingly, electrode shipments have been sluggish in comparison to the previous equivalent period.

On a post-tax basis, Profit from Metal One Corporation and others including the headquarter expenses in the Metals & Mineral Resources Division as a whole contributed to ¥0.8 billion increase. This amount includes the business reorganization gains at Metal One.

Q. I understand that performance in meat and plywood transactions in the Retail & Lifestyle Business Division has been lackluster. Regardless, it was stated that performance is more or less in line with forecasts. Does this mean that there is some other factor anticipated to compensate for this lackluster performance under the unclear situation whether prices will recover from the currently low level?

A. It is unclear whether the prices for import beef and plywood will recover in the second quarter or beyond. The reasons behind the somewhat bearish performance in the three-month period ended June 30, 2019, included a decline in profit due to equipment trouble at our Vietnamese paper making company as well as a drop in the selling price of industrial paper. The equipment trouble has already been rectified, and we received compensation for the losses incurred due to this trouble in the second quarter. In addition, operations are starting up at factories with the potential to become new customers for the Company. We therefore expect to be able to make up for the lackluster performance thus far. Furthermore, the demand

rush for tobacco projected to proceed the consumption tax hike scheduled to take place in Japan on October 1, 2019, will occur during the second quarter, which should also make a slight contribution to the improvement of our rate of progress toward full-year forecasts.

### **Second Questioner**

Q. Aside from the fact the rainfall was experienced starting from the weekend of July 28, 2019, I would like to confirm the status of Asian fertilizer businesses. How are conditions regarding raw materials for fertilizers? How long are selling price controls expected to be in place? Do you have an outlook for the recovery of profit margins from the current downward pressure? Please elaborate on these matters.

A. Officially, the selling price controls are supposed to be lifted in August 2019. However, Sojitz believes that the lifting of these control may be delayed. Prices for agricultural products have been low for the past two or three quarters, and farmers in Thailand have thus found themselves with a lack of on-hand cash. In fact, we have heard that the Thai government began accepting applications from farmers for support under a special grant system on August 1, 2019. This measure will likely give farmers an increased ability to purchase fertilizer. In addition, we have received favorable reports from Thailand stating that daily sales of fertilizer have been two to three times greater than the amount sold on July 31, 2019, as farmers stock up on fertilizer in preparation for rainfall. Accordingly, we plan to continue monitoring the situation.

Q. With regard to the Gregory Crinum coking coal mine, I would like to confirm how the situation has changed compared with three months ago. Specifically, could you offer additional details on the scheduled start of production, previously stated to be October 1, 2019; the schedule for ramping up production thereafter; shipment forecasts for the year ending March 31, 2020; and the status of equipment upgrades?

A. Smooth progress is being made at the Gregory Crinum coking coal mine. We have already resumed stripping in preparation for the commencement of sales on October 1, 2019. There were some slight issues with equipment, but these were addressed, and preparations are moving forward. We therefore have no concerns with regard to the mine at this point in time.

### **Third Questioner**

Q. Progress toward the full-year target for profit for the year in the Metals & Mineral Resources Division was 21%. Meanwhile, the price of thermal coal is gradually declining, but I have heard that transactions in thermal coal businesses are often being conducted with prices that are close to the spot prices seen last year and the year before. Accordingly, I suspect that Sojitz will feel the full impact of any price drops. Could you please explain the Company's hedging strategy and the ratios of transactions that are based on spot prices and of those based on yearlong contracts in the year ending March 31, 2020?

- A. The vast majority of the Australian thermal coal Sojitz deals in is index-linked, meaning that prices are decided at the time of transaction and that we are thus unable to avoid the impacts of market price declines. Australian thermal coal accounts for between 3.4 and 3.5 million tons of the sales volume of 7.2 million tons projected for the year ending March 31, 2020, when accounting for all types of coal. However, as of July 31, 2019, approximately 60% of the Australian thermal coal forecast to be sold had been sold or had selling prices set. Accordingly, the impact on performance from price declines will be slightly lower than suggested by the rate of progress toward sales forecasts. As for the 1.6 tons of coking coal projected to be sold in the year ending March 31, 2020, most will be shipped from the Gregory Crinum coking coal mine in October 2019 or later. As such, selling prices have yet to be determined. While not as pronounced as the decline in the price of thermal coal, the price of coking coal is also down. We therefore cannot deny that, if the current prices persist, our performance will be impacted somewhat.
- Q. In understand that, of the thermal coal to be sold throughout the remainder of the fiscal year, prices have already been set for a certain amount of transactions based on indexes. Accordingly, although the price of thermal coal will decline gradually going forward, Sojitz will be able to sell this coal at a slightly higher price. Given that prices have yet to be fixed for the remaining roughly 40% of coal, is there any chance that prices will exceed Sojitz's thermal coal price assumptions, or should we expect prices to be a bit lower than assumed? What sort of balance are you envisioning?
- A. To be frank, we cannot expect prices to exceed our prior assumptions. Looking at all types of coal, not just thermal coal, if the current prices continue throughout the remainder of the fiscal year, the total amount of coal sales will be roughly ¥0.9 billion less than forecast when taking into account the approximately 60% of transactions for which prices have already been set.
- Q. I understand the circumstances surrounding project and infrastructure earnings as well as seasonal factors. Even given these circumstances, progress in the Metals & Mineral Resources Division, the Foods & Agriculture Business Division, and the Retail & Lifestyle Business Division seems a bit low. How do you assess this situation?
- A. The Retail & Lifestyle Business Division is facing an opaque outlook that is dependent upon conditions in the markets for import beef and building materials. In import beef transactions, for example, there is a need for action to correct our course, such as promoting sales via the framework established a year or two years ago through the Meat-One Project. Meanwhile, overseas fertilizer businesses in Thailand, the Philippines, and Vietnam are attempting to promote sales to Myanmar. By ramping up this sales strategy, we hope to compensate for the sluggish performance in the three-month period ended June 30, 2019. In addition to rice fertilizers, we are also aggressively promoting sales of fruit fertilizers for which transactions are becoming quite brisk in China.

**Fourth Questioner**

Q. When excluding the gain on business reorganization, profits at Metal One can be said to have declined. Could you please explain the current conditions at this company and the outlook going forward?

A. Steel production is growing rapidly centered on China, where production showed a year-on-year increase of 9.9%, to 490 million tons. This increase is due to the infrastructure projects being advanced as part of the Chinese government's economic stimulus measures. Conversely, automobile sales are low, and the supply and demand balance is not particularly favorable. This situation is placing downward pressure on the price of steel. In the United States, sales from U.S. steel mills increased, as did sales prices, following the application of tariffs to imports from China. However, the U.S. market took a prompt dip after the additional tariffs on Canada and Mexico were foregone. This situation is expected to continue going forward. The infrastructure supply and demand balance as well as automobile production levels of pertinent countries, particularly those that can affect the recovery in China, will have a notable influence on the future performance of Metal One.