

**Condensed Transcript of Q&A Session Regarding Results Briefing  
for the Six-Month Period Ended September 30, 2019 (November 6, 2019)**

**First Questioner**

Q. In the Metals & Mineral Resources Division, earnings from coal businesses were down by around ¥2.0 billion in the second quarter. This means that an increase of ¥4.0 billion in earnings from this business will need to be achieved in the second half of the fiscal year in order to accomplish the full-year forecast. Even if we consider that earnings contributions from the Gregory Crinum coking coal mine will be recorded, there was also a one-time income boost recorded in relation to Metal One Corporation during the six-month period ended September 30, 2019. What factors are expected to contribute to increased income in the second half of the fiscal year in comparison to the first?

Also, could you explain, to whatever extent possible, the scale of earnings anticipated from the Gregory Crinum coking coal mine in Australia?

A. In regard to coal businesses, we revised the prices that serve as the assumptions for our forecasts. The new assumed prices are U.S.\$70 per ton of thermal coal and U.S.\$155 per ton of coking coal. Applying these figures to a forward curve and recalculating performance, we arrived at the full-year forecast of ¥23.5 billion for profit for the year (attributable to owners of the Company) in the Metals & Mineral Resources Division. Profit in the second half of the fiscal year is expected to rise in comparison to the six-month period ended September 30, 2019, and the largest contributor to second-half performance will be the Gregory Crinum mine. However, the assumed price for coking coal has fallen from our original assumption of U.S.\$180 per ton. The impacts of this price decline have been incorporated into second-half and full-year forecasts. These impacts will be counteracted by the large degree to which the Australian dollar has depreciated against the U.S. dollar. As production costs in Australian coal operations are incurred on an Australian-dollar basis, this foreign exchange situation will be beneficial to these operations. Foreign exchange rates have been hedged to an extent that pretty much corresponds to the projected sales volumes for the year ending March 31, 2020, and we therefore believe that foreign exchange gains are practically assured. Moreover, sales volumes of both thermal and coking coal are currently slightly higher than initially expected. Our full-year forecast projects that this factor together with the cost reductions achieved in the six-month period ended September 30, 2019, will counterbalance any downturns in prices that may occur during the second half of the fiscal year.

The scale of earnings from the Gregory Crinum coking coal mine is dependent on price negotiations with users, and we therefore cannot comment on this matter at the moment. However, there has been no change to the projected production volume of 1 million tons initially put forth for the year ending March 31, 2020. Reductions to earnings from market price declines are unescapable. Our forecasts for the second-half of the fiscal year have therefore incorporated the potential impacts of such declines to a certain degree.

Q. Progress toward the full-year forecast is low in the Retail & Lifestyle Business Division. Although profit growth is projected in the second half of the fiscal year, the supplementary materials for this financial results briefing state that performance in plywood and meat operations is weak. Given this outlook, what developments expected in the second half of the fiscal year prompted the decision not to revise full-year forecasts?

A. Earnings in Retail & Lifestyle Business Division tend to be concentrated in the second half of the fiscal year. At the moment, we have not received any reports that suggest full-year forecasts will not be accomplished, and we therefore feel highly confident in these forecasts. Large factors impacting performance in the six-month period ended September 30, 2019, included a decreased appetite in China to purchase beef imported from the United States at the market price as a result of the trade friction between these two countries. Conversely, the phased decreased in tariffs between the United States and Japan is expected to stimulate certain increases in demand.

We also anticipate income boosts from asset replacement, but we cannot disclose details on this matter at this point in time. After incorporating these boosts, we forecast profit for the year (attributable to owners of the Company) of ¥7.5 billion in the Retail & Lifestyle Business Division in the year ending March 31, 2020.

### **Second Questioner**

Q. You stated that performance in the six-month period ended September 30, 2019, was in line with full-year forecasts. However, progress toward these forecasts appears to be a bit low. I understand that Sojitz will be implementing the measures described on slide 3 of the presentation materials. What sort of benefits are you anticipating from these measures? In addition, which measure is expected to be most beneficial and will a sufficient benefit be generated in terms of monetary value? What is your outlook with this regard?

Given how far the price of thermal coal has dropped, I suspect that performance in the year ending March 31, 2020, will largely be generated by non-resource businesses. Full-year forecasts going unmet may be an unavoidable future. If forecasts are not met, what will happen with regard to dividend payments?

A. The greatest benefits are expected to come from the reviews of costs. As for investments and loans, we are revising the portfolios distributed among divisions. We will begin disbursements with those projects that can be quickly brought to fruition. Furthermore, we have budgeted from the substantial due diligence expenses anticipated to result from each division conducting investments and loans. We also expect to be able to curtail these expenses to some degree by walking away from those projects deemed to have low feasibility.

We understand the concern arising from the fact that the figure for profit for the period (attributable to owners of the Company) for the six-month period ended September 30, 2019, only represents progress of 41% toward the full-year forecast

for profit for the year (attributable to owners of the Company) of ¥72.0 billion for the year ending March 31, 2020. However, we expect to accomplish this forecast, and we have no intention of deviating from our plan for dividend payments.

Q. You mentioned that forecasts for the Gregory Crinum coking coal mine account for the large drop in the price of coking coal. Meanwhile, production volumes of 1 million tons are projected in the year ending March 31, 2020, and this volume is expected to grow to 2 million and eventually 3 million tons in subsequent fiscal years. How much of this coal will be sold with prices decided by spot contracts?

A. We are currently in the process of negotiating prices with users, which includes forming long-term contracts, with regard to the Gregory Crinum coking coal mine. While the outlook is not clear, we are receiving a number of inquiries from South Korea and India.

### **Third Questioner**

Q. Sojitz has maintained a less-than-optimistic outlook for fertilizer businesses since the beginning of the fiscal year, and various measures have been implemented in these businesses up until now. Given the poor performance, could you please explain which factors, such as operations in Myanmar, non-rice fertilizer operations, and original equipment manufacturers, are contributing and which are detracting? Also, what is your overall assessment and your outlook for recovery in the Thai market?

A. On the topic of Thai fertilizer operations, a visit to Thailand was made last week to discuss the abnormal rain shortage with the president of a local fertilizer company. Measures are thus being implemented in this country to address this situation. In addition, we spoke with farmers, as opposed to dealers, to move forward with the development and sales of new fertilizers for durians and other fruits. However, fruit fertilizers are used in less quantities than rice fertilizers. Nevertheless, sales to Myanmar are growing, underscoring the benefits of the newly hired sales director. In addition, talk of exports and original equipment manufacturers is surfacing with relation to efforts to raise operating ratios. We expect that such efforts will help recover performance.

Q. Previously disclosed forecasts for earnings contributions from investments and loans in the year ending March 31, 2021, projected contributions of ¥12.0 billion from investments and loans conducted under Medium-Term Management Plan 2017 and ¥10.0 billion from those executed under Medium-Term Management Plan 2020. Has there been any change to these forecasts?

A. Investments and loans are progressing as planned toward our target of ¥300.0 billion, and earnings contributions are also being generated as planned. There have thus been no changes to our forecasts. In the year ending March 31, 2020, we anticipate contributions of ¥8.0 billion from Medium-Term Management Plan 2017 investments and loans and ¥6.0 billion from Medium-Term Management Plan 2020 investments and loans. One of the largest components of the ¥6.0 billion from investments and loans conducted under Medium-Term Management Plan

2020 will be contributions from the Gregory Crinum coking coal mine. However, if the current market conditions continue, it may be difficult to achieve the projected figure of ¥6.0 billion. We cannot offer details on specific projects affected by the revision of our earnings contribution schedule described on slide 3 of the presentation materials. What I can say is that earnings contributions from investments and loans conducted under Medium-Term Management Plan 2017 during the period current medium-term management plan will not deviate from prior expectations, but they may be realized a little bit ahead of schedule. Considering this and other factors, we do not expect any changes in the aforementioned earnings contribution forecasts of ¥8.0 billion and ¥6.0 billion. As for earnings contributions in the year ending March 31, 2021, some contributions scheduled for the year ending March 31, 2020, may be delayed the following year, but there will be no change to the three-year total for earnings contributions. Accordingly, we see no need to adjust the three-year forecasts for earnings contributions of ¥12.0 billion from investments and loans conducted under Medium-Term Management Plan 2017 and ¥10.0 billion from those executed under Medium-Term Management Plan 2020.

#### **Fourth Questioner**

Q. The share buybacks were unexpected and a bit surprising, but I was able to understand the reason for this decision after hearing the Company's explanation. Meanwhile, the trend toward reducing cross-shareholdings has been a consistent one over the past several years. Against this backdrop, what prompted this decision and this timing for the announcement? The buyback period has been set as ending in March 2020, and 30 million shares are to be bought back. This makes it seem as though a number of buyers have already been decided. Could you please cast some light on this matter?

A. This decision was prompted by requests received from several companies in the year ending March 31, 2020, to dissolve cross-shareholdings with the Company. These requests appear to be a response to the revision of Japan's Corporate Governance Code that took place this year. The revised code encourages companies to review individual cross-shareholdings. All 30 million shares scheduled to be repurchased may not be for the purpose of dissolving such cross-shareholdings, but we chose this amount to ensure that we would be able to respond should requests of this volume be received.

In addition, Sojitz will perform quantitative and qualitative review and evaluations of the holding purpose of all cross-shareholdings in conjunction with the revision of Japan's Corporate Governance Code. For those holdings that did not fulfill the criteria put forth, we will determine what needs to be done for these criteria to be met. If this is deemed impossible, the holdings will be sold. We suspect that other operating companies are undergoing a similar process, and this process was another of the reasons behind the decision.

Q. Slide 8 of the presentation materials states that the annual production volume of the Gregory Crinum coking coal mine is expected to reach 3 million tons over the

medium to long term while the projected sales volume for the second half of the fiscal year is 1 million tons. The situation regarding demand is less than desirable at the moment and iron prices are falling, which is contributing to a trend toward indecisiveness among users. With this in mind, what are your thoughts regarding the schedule leading up to production volumes of 3 million tons?

- A. Sluggish trends in iron and steel production are being seen around the world. Our ability to sell all of the 3 million tons produced will thus depend on the negotiations currently underway. As for production at the Gregory Crinum coking coal mine itself, we expect to be able to begin producing 3 million tons a year in the year ending March 31, 2021.

#### **Fifth Questioner**

- Q. It was mentioned that Sojitz's earnings structure will change as it builds firm operating foundations in non-resource businesses. Meanwhile, a look at the macroeconomic outlook presents ongoing concern in relation to automotive and machinery businesses continuing into the second half of the fiscal year and the following fiscal year. These businesses, which are highly sensitive to economic fluctuations, are facing an operating environment that is less favorable than had been projected, raising concern for the year ending March 31, 2021. Has such concern emerged with regard to Sojitz's portfolio? Also, how did such concern influence the most recent forecast revision?
- A. We are acutely aware of the slowdown being seen in the global economy. One area in which this slowdown is manifesting is Russian automotive businesses, where we are witnessing falling sales prices coupled with a slight decline in overall demand. We are also seeing slowdown in deliveries of plastic resins to China in the Chemicals Division. These are among the factors causing concern for the second half of the fiscal year. Nevertheless, we expect to be able to accomplish our forecast of ¥72.0 billion for profit for the year (attributable to owners of the Company) in the year ending March 31, 2020, by replacing assets and reviewing costs based on these factors.
- Q. A notable characteristic of the outlook for earnings contributions from investments and loans is the targets for return on investment (ROI) set at the time of the establishment of the current medium-term management plan. I understand that Sojitz's intention is to raise ROI over time, eventually bringing it up above cost of capital, in order to build a higher-quality asset portfolio. It was stated that cash will be used and generated in accordance with the defined plan for the time being. Do you expect efforts to raise ROI to proceed in accordance with the scenario you had envisioned going forward?
- A. As put forth in the materials associated with this financial results briefing, there has been no change to the ROI forecasts set at the time of the establishment of the current medium-term management plan or at the beginning of the fiscal year. We intend to explain the situation regarding investments in the first year of Medium-Term Management Plan 2020 and the year ending March 31, 2020, as well as asset

replacement and earnings growth when our full-year financial results for this fiscal year have been finalized.

**Sixth Questioner**

Q. The full-year forecast for gross profit has been lowered by ¥10.0 billion while the forecast for selling, general and administrative (SG&A) expenses has been reduced by ¥4.5 billion from the prior ¥182.5 billion, to ¥178.0 billion. This reduction is most likely to result from reviews of costs. How much of this ¥4.5 billion reduction will be a result of conscious cost cutting measures? Also, is there any possibility that SG&A expenses will be reduced by more than ¥4.5 billion?

A. I understand your criticism with regard to how the ¥4.5 billion reduction in SG&A expenses seems insufficient in comparison to the ¥10.0 billion downward revision to the forecast for gross profit. However, these revisions reflect a decline in gross profit stemming from delays in executing new investments and loans, and a corresponding reduction in SG&A expenses has thus been included. Please understand that the reduction in SG&A expenses also incorporates the outcomes of cost revisions. We will, of course, be making a conscious effort to cut costs. Also, we will not be satisfied with a mere ¥4.5 billion reduction in SG&A expenses, and we recognize the need to pursue further reductions in expenses going forward.

Q. Slide 30 of the presentation materials indicates that, in Energy & Social Infrastructure Division, Sojitz's share of power generation capacity is currently just below 1,000 MW and that this amount is anticipated to increase to nearly 2,000 MW over the next five years. As the Company's share of power generation capacity increases over the next five years, how will profit for the year (attributable to owners of the Company) in this division, which is currently around ¥8.0 billion, change?

A. We currently do not have a clear outlook for earnings contributions from social infrastructure businesses when Sojitz's share of power generation capacity has reached 2,000 MW. We do not expect a large amount of profit to be produced by power generation operations, but we do anticipate steady, continuous growth in these operations. Through the ongoing process of recovering development costs, selling projects, and then replacing assets, we suspect that it will be possible to achieve earnings contributions of more than ¥8.0 billion.