Condensed Transcript of Q&A Session Regarding Results Briefing for the Nine-Month Period Ended December 31, 2019 (February 5, 2020)

First Questioner

Q. Profit for the period attributable to owners of the Company in the nine-month period ended December 31, 2019, was ¥8.0 billion, whereas profit for the year attributable to owners of the Company of ¥28.5 billion is projected on a full-year basis. What type of earnings improvements and one-time income movements are anticipated in the fourth quarter of the year ending March 31, 2020?

A. We are unable to offer details on the anticipated earnings contributions of specific projects out of consideration for our relationships with clients. However, We can say that price agreements have practically been finalized, and we expect that it will be possible to close deals, record earnings, and generate cash flows by March 31, 2020.

Looking specifically at the Aerospace & Transportation Project Division, this division is projected to generate profit of nearly ¥4.0 billion in the fourth quarter. Earnings in the Aerospace related businesses were always expected to be concentrated in the second half of the fiscal year, and performance prior to December 31, 2019, was impacted by one-time losses. Given these factors, performance in this division is not as bad as it may appear, and we see no specific cause for concern.

Turning to the Machinery & Medical Infrastructure Division, construction is moving along smoothly with regard to the Turkish hospital and other projects. We therefore do not anticipate any particular obstacles toward accomplishing the profit figure of ¥1.9 billion projected for the fourth quarter.

The Chemicals Division is projected to post profit of ¥3.4 billion in the fourth quarter. We expect to be able to achieve this figure by taking advantage of a profit increase stemming from the rebound from the periodic repairs conducted at overseas operating companies during the third quarter as well as the one-time income movements currently anticipated.

In regard to one-time income movements, some of the asset replacements initially planned for the year ending March 31, 2020, will be delayed until the following fiscal year. Accordingly, one-time income increases in the year ending March 31, 2020, will not necessarily result in decreases in the year ending March 31, 2021.

Q. It was mentioned that the commencement of operations at the Gregory Crinum coking coal mine is behind schedule. How is progress in getting the mine onstream? Also, given that production volumes will be increased leading up to the year ending March 31, 2021, what is the projected timing for earnings improvements and what is scale of earnings is expected?

A. At the Gregory Crinum coking coal mine, we incurred additional costs for purposes such as altering excavation pits as necessitated by flooding. Meanwhile, we struggled in terms of sales amid incredibly sluggish steel demand. We had originally expected a sales volume of 1,000,000 tons in the year ending March 31, 2020, but we now project that the actual sales volume will only be around 75% of this forecast. Accordingly, earnings contributions from this mine will diverge significantly from our initial forecast.

As for the year ending March 31, 2021, we already have concrete sales projections for the year ending March 31, 2020, and there are currently no obstacles to the operation of the mine. Based on these factors, we currently forecast a sales volume of 1,500,000 tons, double that now projected for the year ending March 31, 2020, in the year ending March 31, 2021. Moreover, we believe that the sales volume of 2,000,000 tons initially forecast for the year ending March 31, 2021, may be within our reach.

Second Questioner

Q. My overall impression of Sojitz's performance is that there is a significant difference between third-quarter results and fourth-quarter forecasts for certain segments. Could you please offer your thoughts regarding the progress of each segment toward their respective full-year forecasts?

A. I would first like to talk about the Automotive Division, which saw performance dip in the third quarter of the year ending March 31, 2020. Faced with sluggish overall demand in Asia, we instituted a policy of completely selling our inventories of older-model vehicles in this region. Basing our third quarter sales activities on this policy, we were able to completely sell our inventories of such vehicles. However, this approach resulted in us incurring sales promotion expenses that weighed heavily on performance and thus contributed to the overall decline. The sale of new models has been decided for the fourth quarter, and we expect to be able to recover performance through such sales.

The Aerospace & Transportation Project Division is forecast to post profit of ¥3.9 billion in the fourth quarter of the fiscal year. As previously stated, progress in the nine-month period ended December 31, 2019, was not as bad as it may appear given the one-time losses, and we therefore do not believe that it will be impossible to accomplish this figure.

In the Machinery & Medical Infrastructure Division, performance is slightly dependent on the timing of closing of overseas plant deals. The impact of this factor is expected to be within the scope of a few hundred million yen.

The Energy & Social Infrastructure Division is a segment planned to conduct asset replacement. Price agreements for these asset replacement transactions have already been concluded. Accordingly, we feel confident in our ability to achieve the forecast figure of ¥4.2 billion for profit in the Energy & Social Infrastructure Division. We also think it may be possible to exceed this forecast.

As stated, the Chemicals Division is projected to see increased profit on the back of higher transaction volumes arising from factors such as the rebound from the periodic repairs conducted at overseas operating companies during the third quarter as well as the one-time income movements currently anticipated.

The forecast for fourth-quarter profit in the Foods & Agriculture Business Division is ¥0.6 billion. It may be difficult to achieve this figure. The fourth quarter is a period of low demand in Thailand and Vietnam and the end of the dry-season cropping period for rice in the Philippines. Our focus will thus be on capitalizing on this situation and on making up for slow progress in our marine products business operations.

Asset replacement price agreements have practically been finalized in the Retail & Lifestyle Business Division. For this reason, we have a high degree of confidence in our ability to achieve the forecast for this segment, and we see no particular cause for concern.

There will also likely be no issues with accomplishing the forecasts for the Industrial Infrastructure & Urban Development Division as plans to turn over large-scale overseas industrial parks have been set in stone.

Lastly, the forecast for the Metals & Mineral Resources Division also incorporates the impacts of certain asset replacement activities. We have already concluded price agreements with the counterparties to which these assets will be transferred for certain transactions and have begun the process of acquiring the necessary permits for other transactions. For this reason, we believe that there will be no issue with accomplishing the forecast for this segment.

Q. Initial forecasts for the year ending March 31, 2020, project total earnings contributions from previously conducted investments and loans of ¥14.0 billion, ¥8.0 billion of which is to come from investments and loans conducted under Medium-term Management Plan 2017 with the remaining ¥6.0 billion to come from investments and loans conducted under Medium-term Management Plan 2020. At the financial results briefing for the six-month period ended September 30, 2019, it was stated that earnings contributions from Medium-term Management Plan 2017 investments and loans amounted to ¥4.0 billion while those from Medium-term Management Plan 2020 investments and loans totaled ¥1.0 billion. What is the current situation regarding these investments and loans? Also, Medium-term Management Plan 2017 investments and loans and Medium-term Management Plan 2020 investments and loans were previously projected to generate earnings contributions of ¥12.0 billion and ¥10.0 billion, respectively, in the year ending March 31, 2021. To what extent do you currently expect these investments and loans to contribute to earnings?

A. There has been no major change to our outlook for total returns from new investments and loans in the year ending March 31, 2020. However, there has been some changes in how this outlook breaks down. Specifically, we now anticipate that returns from investments and loans conducted under Medium-term Management Plan 2017 will amount to around ¥14.0 billion including the ahead-of-schedule replacement of assets slated for the fourth quarter of the year ending March 31, 2020.

Conversely, returns from investments and loans conducted under Medium-term Management Plan 2020 are forecast to come to about ¥0.5 billion. A negative impact on profit for the year will occur as a result of the unfortunate fact that earnings contributions from the Gregory Crinum coking coal mine have deviated substantially from our initial expectations as well as of the impacts on Vietnamese papermaking operations of a loose supply-demand balance and deteriorating market conditions stemming from decreased distribution transaction volumes in China. These are the factors behind the low returns of ¥0.5 billion projected from investments and loans conducted under Medium-term Management Plan 2020.

We are have already begun implementing recovery measures in these businesses, and we will carefully verify the extent to which a recovery can be achieved in the year ending March 31, 2021, when formulating budget proposals going forward.

Third Questioner

Q. With regard to the Gregory Crinum coking coal mine, I understand that additional costs were incurred for purposes such as altering excavation pits as necessitated by flooding and that this factor impacted production. Around what scale are you projecting for production and sales volumes, and what are the circumstances surrounding the commencement of sales?

A. Production volume is forecast to climb slightly above 1,000,000 tons while sales volume will be around 750,000 tons. This sales volume represents the volume of coal to be sold over the period from the second half of the third quarter and throughout the fourth quarter. It is not the volume to be sold over the period of half a year.

As for the commencement of sales, steel demand is quite sluggish, and we have not been receiving a lot of inquiries from users. Price negotiations have been difficult for this reason. We have already begun sales negotiations with users in Japan, South Korea, India, and other countries. Going forward, we believe it will be possible to grow sales volumes by diversifying the users we supply.

Q. In regard to the Automotive Division, it was stated that sales were conducted based on a policy of completely selling older-model automobiles amid faltering overall demand, resulting in lower profits. What is the situation regarding sales of new models? Also, I understand that production is being halted at the South Korean factories of Hyundai Motor Company due to the interruption of transportation and distribution in Wuhan, China. What impact will this development have on Sojitz's Hyundai vehicle operations in Thailand and Puerto Rico?

A. At the moment, we have confirmed that it will be possible to cover the intended fourth-quarter sales volumes in Hyundai vehicle operations in Thailand and Puerto Rico with inventories on-hand and currently being shipped. Should the impacts of the situation in Wuhan persist into the first quarter of the year ending March 31, 2021, we will be unable to avoid feeling the effects. We therefore intend to continue monitoring this situation into the future.

Fourth Questioner

Q. One-time income movements in the nine-month period ended December 31, 2019, amounted to ¥0.8 billion. What is the full-year forecasts for such movements? Also, is it correct to assume that the amount of one-time income movements in the year ending March 31, 2021, will be around the same level as in the year ending March 31, 2020?

A. As indicated on the supplementary materials attached to the document detailing highlights of consolidated financial results for the nine-month period ended December 31, 2019, other income/expenses came to ¥1.3 billion in the third quarter while the revised full-year forecasts project other income/expenses of ¥6.0 billion. Aside for income and expenses included under this item, such as those from renewable energy businesses, we are also expecting profits from the management of development earnings, as well as profits from asset turnover-oriented businesses that produce earnings from selling assets. As for the year ending March 31, 2021, one-time income movements are anticipated to arise from asset replacement activities undertaken in the year ending March 31, 2020, for which the recording of profits will be delayed until the year ending March 31, 2021, as a result of how the related processes are advancing. Another source of such income movements will be renewable energy and other asset turnover-oriented businesses that generate profits through the constant replacement of assets. Accordingly, although we cannot say whether one-time income movements will around the same level as in the year ending March 31, 2020, we did anticipate movements of a similar level when formulating the current Medium-Term Management plan.

Fifth Questioner

Q. Although full-year forecasts were lowered, the annual dividend forecast was left at ¥17 per share, which is projected to make for a payout ratio of around 32%. What are the Company’s policies for shareholder returns moving into the year ending March 31, 2021?

A. Sojitz’s basic policy is to issue stable and ongoing dividends. Based on this policy, we will target a consolidated payout ratio of approximately 30% under Medium-Term Management Plan 2020. This policy will not change in the year ending March 31, 2020, or in the year ending March 31, 2021. The revision to full-year result forecasts led to our projecting a consolidated payout ratio of 31.8%. However, this figure is not a significant departure from the targeted level of approximately 30%. Accordingly, we have chosen not to revise our annual dividend forecast from the initial level of ¥17 per share.